

EUROPEAN INTEGRATION: AN ASSESSMENT IN TERMS OF
ECONOMIC POLICIES SINCE THE EURO AREA CRISIS

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ABSTRACT

EUROPEAN INTEGRATION: AN ASSESSMENT IN TERMS OF ECONOMIC POLICIES SINCE THE EURO AREA CRISIS

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Since World War (WW) II, powerful steps in terms of enlargement and deepening have been taken forward to integrate Europe within the context of an organization called as the European Union (EU). Despite powerful steps, in recent years the EU has been facing challenging exams (constitutional crisis in 2005, the Euro Area (EA) crisis in 2009, refugee crisis, terrorist attacks etc.) which adversely affect the dynamism of integration, and consequently it is seen that there are some backward steps (Brexit and other possible exits from the EU) which can be defined as disintegration moves.

Today the main motive of further integration can be attributed to economic benefits provided by integration itself, and today further integration comes with further economic integration which means more coordination between monetary and fiscal policies at EU level. In economic theory there are two main economic policy instruments; monetary policy and fiscal policy. From the point of the EU while monetary policies are carried out at union level by the European Central Bank, fiscal policies are left to the sovereignty of EU nations. In order to overcome this approach which can also be defined briefly as "single monetary policy - different fiscal policies", various harmonization

efforts have been made, especially through fiscal policies. In this context, the sovereignty of member states (MSs) of the EU has been tried to be restricted via the Maastricht convergence criteria and various other economic coordination procedures. Moreover, today many institutional and structural changes are taking place by means of economic policies (such as European Semester, European Stability Mechanism, Banking Union, etc.) created and implemented since the EA Crisis starting to be effective since 2009.

In this study, it is aimed to examine the effects of the latest economic policies on European integration process. With the help of such an analysis, this thesis proposes the argument that Europe will continue to be integrated more and more but in small steps. Contrarily, for sure, regressions or some degree of disintegration moves due to economic crises or other economic and political reasons will be seen from time to time within European integration process. However, while these so-called disintegration moves can be seen rarely, all in all, it is considered that the benefits of integration will always come to the forefront.

Keywords: European integration, economic and monetary union, euro area economic policies, euro area crisis.

ÖZ

AVRUPA BÜTÜNLEŞMESİ: AVRO ALANI KRİZİNDEN İTİBAREN UYGULANAN EKONOMİ POLİTİKALARI AÇISINDAN BİR DEĞERLENDİRME

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II. Dünya Savaşı'ndan bu yana, Avrupa'yı Avrupa Birliği (AB) olarak adlandırılan bir örgütlenme bağlamında bütünleştirmek için genişleme ve derinleşme açısından güçlü adımlar atılmıştır. Güçlü adımlara rağmen, son yıllarda AB, bütünleşme dinamizmini olumsuz yönde etkileyen zorlu sınavlarla (2005'teki anayasal kriz, 2009'da Avro Alanı krizi, mülteci krizi, terör saldırıları vb.) karşı karşıya kalmıştır. Sonuç olarak, dağılma hareketi olarak tanımlanabilecek bazı geri adımların (Brexit ve AB'den diğer olası çıkışlar) olduğu görülmektedir.

Günümüzde, bütünleşmenin temel nedeni, bütünleşmenin sağladığı ekonomik faydalara bağlanabilir ve günümüzde bütünleşme adımları AB düzeyinde para ve maliye politikaları arasında koordinasyonun artırılması anlamına gelen ekonomik bütünleşmenin artırılması ile atılmaktadır. İktisat teorisinde iki ana iktisadi politika aracı vardır; para politikası ve maliye politikası. AB açısından bakıldığında para politikaları Avrupa Merkez Bankası tarafından Birlik düzeyinde yürütülürken, maliye politikaları AB devletlerinin egemenliğine bırakılmıştır. Kısaca "tek para politikası - farklı maliye politikaları" olarak da tanımlanabilen bu yaklaşımın üstesinden gelmek için, özellikle maliye politikaları alanında çeşitli uyumlaştırma çabaları yapılmıştır.

Bu bağlamda, AB üye devletlerinin egemenliđi, Maastricht yakınlařma kriterleri ve diđer çeřitli ekonomik koordinasyon prosedürleri yoluyla sınırlandırılmaya alıřılmıřtır. Ayrıca, günümüzde 2009 yılından bu yana etkili olan Avro Alanı Krizini takiben oluřturulan ekonomi politikaları (Avrupa Dönemi, Avrupa İstikrar Mekanizması, Bankacılık Birliđi vb.) yoluyla birçok kurumsal ve yapısal deđiřiklik meydana gelmektedir.

Bu alıřmada, yakın dönem ekonomi politikalarının Avrupa bütünüřme sürecine etkilerinin incelenmesi amaçlanmıřtır. Böyle bir analizin yardımıyla, bu tez, Avrupa'nın küçük adımlarla bütünüřmeye devam edeceđi argümanını önermektedir. Aksine, dođal olarak, ekonomik krizler veya diđer ekonomik ve politik nedenlerden ötürü gerilemeler veya küçük ölçekli dađılma hareketleri Avrupa bütünüřme süreci içinde zaman zaman görülecektir. Ancak, bu sözde paralanma hareketleri nadiren görünse bile, sonuçta, bütünüřmenin faydalarının her zaman ön plana ıkacađı düşünölmektedir.

Anahtar Kelimeler: Avrupa bütünüřmesi, ekonomik ve parasal birlik, avro alanı ekonomi politikaları, avro alanı krizi.

To my family for their unconditional support and
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LIST OF ABBREVIATIONS

BU	Banking Union
CF	Cohesion Fund
CMU	Capital Markets Union
EA	Euro Area
EC	European Commission
ECB	European Central Bank
ECSC	European Coal and Steel Community
ECU	European Currency Unit
EEC	European Economic Community
EMS	European Monetary System
EMU	Economic and Monetary Union
ERDF	European Regional Development Fund
ESF	European Social Fund
ESIF	European Structural and Investment Funds
EU	European Union
EURATOM	European Atomic Energy Community
EUROSTAT	Statistical Office of the European Union
GDP	Gross Domestic Product
GNI	Gross National Income
IPA	Instrument of Pre-Accession Assistance
MFF	Multiannual Financial Framework
MS	Member State
OCA	Optimal Currency Area

SGP	Stability and Growth Pact
SRM	Single Resolution Mechanism
SSM	Single Supervisory Mechanism
UK	United Kingdom
US	United States
TEU	Treaty on European Union
VAT	Value Added Tax
WW	World War

CHAPTER 1

INTRODUCTION

At present though the main motive for further integration in Europe might be considered as economic benefits provided by integration itself, in the 1940s and 1950s, the EU as an integration project did not start only because of economic needs. At that time, political needs such as peace and freedoms were much more important motives for integration. However, today further integration comes with further economic integration which means more coordination between monetary and fiscal policies at EU level.

The EU has been dealing with many challenges since 2009 as never seen before such as still-continuing the EA Crisis. Even though the EU has been recording signs of recovery since 2015, the severe effects of the economic crisis has still been felt. Additionally, the EU tries to cope with Brexit, unprecedented influx of refugees and deadly wave of terrorist attacks. Addressing these immense challenges requires a combination of political leadership and strategic use of the EU budget. In line with the political priorities, the budget has been oriented towards maximising its contribution to job creation, growth and investment.

The crisis that shook the global economy since September 2008 caused the EU economy to enter a recession period. While the overall economic growth rate in the EU declined, the unemployment rate increased rapidly. Chain events that began as a liquidity problem in the United States' (US) mortgage market and their transformation into a global crisis firstly affected EU financial markets and then all the EU economy. When looked at the main

economic indicators, the countries most severely affected by the crisis are Greece, Ireland, Portugal and Spain. In this period, the ratio of public debt and budget deficit to gross domestic product (GDP), which can be referred as fiscal criteria, have increased in the EU. Before the crisis budget deficits and public debts in the MSs were at controllable levels but showing variations across countries. While economic and financial measures have been taken along with the crisis, it has also become obvious that fiscal criteria were ignored before 2009 and there have been various weaknesses of the EA even after 2009.

In economic theory there are two main economic policy instruments: monetary policy and fiscal policy. The decisions taken by the European Central Bank (ECB), which governs monetary policies in the EA, are supranational and binding for the MSs, while fiscal policies are implemented at national level. Although before the crisis reform efforts have come to the forefront to tackle with the problems created by this dilemma called as "single monetary policy - different fiscal policies", concrete steps could only be taken after the severe consequences of the crisis. Before the crisis various harmonization efforts have been made for fiscal policies. In this context, the sovereignty of the EU MSs has tried to be restricted via the Maastricht Convergence Criteria and some other economic coordination procedures. Moreover, since the Crisis, which started to affect the EA in 2009, many institutional and structural changes have realized by means of new economic policies.

However, it seems that the defects in the structure of the fiscal system are difficult to overcome because of the absence of an EU central government with power to collect and spend tax. In another words, the failure to establish an integrated political union, or renounce the right to taxation-an important indicator of sovereignty on behalf of the EU- at an adequate level is the major deficiency in the management of the EA. In addition to different taxation methods across countries, heterogeneous features such as the structural rigidities of EA member countries, political divisions and different

implementations in the financial sectors might also be seen as other important serious defects in the original design of the Economic and Monetary Union (EMU).

In addition to these defects which cause continuation of the effects of the EA Crisis up to now, another important factor of slow economic recovery after the crisis is that there is a general violation of financial rules by member countries of the monetary union and no on-time-sanctioning of these irregular countries. Especially, violations of the rules before 2009 by some major countries such as Germany, France, the United Kingdom (UK) and Italy have made it more difficult to enforce the rules.

Although in the literature the importance of the economy in European integration process and its effect on the integration are subject to many studies, in the context of the 2009 EA Crisis, the relation between economic policies and integration is a relatively less studied issue.

The research topic of this study is European integration especially under the influence of economic policies since the beginning of the EA Crisis. This study tries to put forward the link between economic policies and European integration and aims to reveal where Europe will go under the influence of economic policies at both national and union level. Therefore, the implications of the question whether Europe will disintegrate or integrate more are tried to be discussed.

Two of the most important dimensions of European integration are the political aspect of European integration and the early economic policies before 2009, which is the starting date of the EA Crisis. Although these two issues are inevitably mentioned in this study, these issues nearly include all the aspects of the whole integration process and are beyond the scope of this study. And after all, this must not be a big problem because the topic here is mainly about revealing the relation between European integration and the recent economic policies.

In this study, after giving general information about the EMU, the development of the crisis and the implemented procedures and policies, it is tried to discuss the effects of economic policies and structural defects to European integration in detail by showing their positive but little contributions to the integration process.

In the second chapter titled as "European Integration", economic issues are taken into consideration by briefly touching on the political issues also. The EU is an organization which maintains its progressive integration in various areas such as politics, economics, security, external relations, justice, health and environment among its 28 member countries which compose almost all of the Continent. Within this context, in this chapter, it is aimed to put forward the historical course of European integration process, and it is also intended to show that there is a close relationship between integration and economy, and in this sense economic policies have shaped the integration significantly. Before main focus points of this study such as the evaluation of recent economic policies in response to the crisis and the effects of these policies to the future of European integration, it would be useful to provide information about the economic history, definition and kinds of European integration and main characteristics and related problems of the EMU. This would also provide us a framework under which we can conclude at the end of this study that the EMU is an inevitably and continuously evolving structure into a more integrated region but with some defects.

Accordingly, the third chapter titled as "Euro Area Crisis" explores the development process of the global crisis and the past and current situation in the countries most affected by the crisis with the help of statistical data. We can claim that while economic and financial measures have been taken along with the crisis, it has also become obvious that fiscal criteria had been ignored before 2009 and there are various weaknesses of the EA even after 2009. In this chapter it is also intended to highlight the EA economies' historically strong and weak parts and main structural defects and the last crisis's long-term effects on the economies by benefitting statistical data.

Examining the individual state of each country and the measures taken at MS level will also help us to see more closely the dimensions of the crisis. Today, the MSs in the EA still face major problems in terms of budget deficit and public debt as especially seen in the indicators of some countries also examined in the chapter. It has been seen that given the violations of the MSs, it is more important than ever that countries should not be allowed to go beyond the limits set by the agreements and that borrowing policies should be controlled strictly.

In the fourth chapter, it is tried to look closer the defects of the EMU and how to solve their blockage on further European integration. In this sense, the emphasis on fiscal policy and its interaction with monetary policy are first discussed especially around the dilemma "one monetary policy – different fiscal policies", and then followed by the main arrangements that could be made for the coordination of fiscal policies in the EU. Today, after many years since 2009, there are still economic reforms that are lacking in the EU. There are still problems both at union level and individual country level. Besides, it is observed that there are also obstacles against further regulation, that causes European integration incomplete.

In the fifth chapter, dealing with "the economic policies in fighting against the EA Crisis", it will be shown how and to what extent European integration is affected from these policies. The economic policies after 2009 are much more important than the previously established ones since the EA Crisis is one of the most challenging exams of the EU faced in its history. The Crisis has caused many economic problems, and even political problems such as the increasing doubts on the future of the EU. On the other hand, the Crisis has been a chance to see more closely the main defects of the EMU, and in this way, some remedies such as the European Stability Mechanism, the European Semester and the Banking Union are produced, that positively affect the integration process in small steps. The EMU is an economic model that requires the harmonization of the economic policies of the member countries as well as the implementation of the common monetary policy at

the supranational level. Various procedures and policies have been developed to ensure the harmonization of member countries' monetary and fiscal policies in the fight against the effects of the global economic crisis started in 2009. Although there were some mechanisms before 2009, they were not effective in the prevention of the crisis and in the post-crisis period. It is observed that the mechanisms created after the crisis are more effective defence tools and contribute significantly to European integration process. Therefore, it would be useful to differentiate the mechanisms and/or economic policies as before and after the crisis. After revealing the pros and cons of these post-crisis mechanisms it will be concluded that European integration is highly affected in a positive way from these mechanisms than the pre-crisis ones so that the post-crisis ones provide more deepening in the EMU and in the EU.

In the following chapter, which deals with the effects of economic policies and structural defects on European integration, and which might be accepted as the core of this study, within the light of the discussions in the previous chapters, firstly, relationship is tried to be revealed among economic policies, structural defects and European integration, and then, within the context of this relationship the scenarios on the future of European integration are discussed.

The concluding remarks will present, in sum, what this study proposes on the basis of main reasons of the EA Crisis, major problems faced by the MSs in the EA, measures taken against the crisis, and reveal main ways of how European integration can be shaped in the future. Actually, the problems of the EA are so serious that they require important reforms, and when taking into account national, supranational and international elements of the economic policies against the crisis as well as the high number of actors involved, the economic policies have exhibited a complex and ineffective structure until now.

CHAPTER 2

EUROPEAN INTEGRATION

The EU is an organization which maintains its progressive integration in various areas such as politics, economics, security, external relations, justice, health and environment among its 28 member countries which compose almost all of the Continent. In this chapter, mainly economic issues are taken into consideration by briefly touching on the political issues also. Within this context, it is aimed to put forward the historical course of European integration process, and it is also intended to show that there is a close relationship between integration and economy, and that economic policies have shaped the integration significantly. Before the evaluation of recent economic policies in response to the crisis and the effects of these policies to the future of European integration, it would be useful to provide information about the economic history, definition and kinds of European integration and main characteristics and related problems of the EMU in this chapter. This would also provide us the framework under which we can conclude at the end of this study that the EMU is an inevitably and continuously evolving structure into a more integrated region with some defects.

2.1 Brief History of European Integration

Although the beliefs and traditions of Europeans have been close to each other throughout the ages, there were occasions where Europeans often clashed with each other. Particularly after each large-scale conflicts such as Thirty Year Wars (1618-1648), Napoleonic Wars (1803-1815), and WWs (WW-I: 1914-1918 and WW-II: 1939-1945), the idea of forming a united Europe began to spread and strengthen. If Europe were to be united, this would only be realized via building Europe on the basis of common political and economic interests, taking into account the common values on a Continent where peace and stability prevailed.

After WW-II, the efforts of European statesmen as well as resistance fighters, lawyers and parliamentarians to create a lasting peace in Europe gained momentum. In this sense, a group of people, who were pioneers and called as the founding fathers of the EU such as Alcide De Gasperi, Altiero Spinelli, Jean Monnet, Konrad Adenauer, Paul-Henri Spaak, Robert Schuman, Ursula Hirschmann and Walter Hallstein¹, worked to create "Europe" around a united and prosperous European ideal.

French Foreign Minister Robert Schuman initially addressed an idea designed by Jean Monnet, former secretary-general of the League of Nations, and proposed foundation of the European Coal and Steel Community (ECSC) on May 9, 1950, with the Schuman Declaration. Thus, the first step was taken for a long lasting peace project with the transfer of decisions taken in the production of the raw materials of war, coal and steel, to an independent and transnational institution and with the establishment of a common market

¹ Also note that many others have worked up to now around the ideal of a united Europe. Detailed information about these persons could be obtained from the website of the EC: https://europa.eu/european-union/about-eu/history_en, (accessed on 5 February 2019).

among six countries (France, Germany, Italy, Belgium, Luxemburg, and the Netherlands)

The six MSs signed the Treaty of Rome in 1957 and decided to establish the European Economic Community (EEC) based on a common market of various goods and services. The aim of the EEC was to establish a common market with free movement of goods, services, labor and capital and ultimately to establish a political union. The European Atomic Energy Community (EURATOM), like the EEC, was formed by the Treaty of Rome. The aim of this community was to coordinate the research programs of the MSs in order to ensure the safe and peaceful use of nuclear energy.

With the Merger Treaty in 1965, a single Council and a single Commission were established for the three communities mentioned above (the ECSC, the EEC and the EURATOM), and these Communities became known as the European Communities. Thus, the European Communities began to consolidate their institutional and economic structures and took important steps towards economic integration.

In the 1960s, as the most concrete step of the integration process, the six founding countries of the EU tried to form the Customs Union. Common policies were established in trade and agriculture, and the customs duties on manufactured goods among the six countries were completely abolished on 1 July 1968.

The 1970s was a period of great efforts to promote economic integration for the European Communities. Although the studies were interrupted shortly due to the economic problems (the collapse of the Bretton Woods system in 1971, the oil crisis in 1973, the end of right-wing administrations in Portugal and Spain, etc.), the European Monetary System (EMS) was established in 1979. Though it was generally regarded as an unsuccessful experience, it made significant contributions to the efforts of forming an EMS.

Following the first achievements of the EEC, Denmark, Ireland, and the UK decided to join the EEC. With the first enlargement in 1973 the

number of MSs reached nine. The EEC enlarged to twelve members with the participation of Greece in 1981 and Spain and Portugal in 1986.

Greece's application had been met with concerns, within the EU, since this country was not politically and economically ready to become a member, and did not share common values with other MSs. Following the negotiation process, the MSs began to advocate that, instead of leaving Greece out, her democratization could be established effectively within the Union².

The memberships of Spain and Portugal were accepted at the end of a highly controversial process, just like Greece. These two countries were both politically and economically less developed in the 1970s, but the geopolitical importance of the Mediterranean for the EU and the success of the enlargement policy had helped to overcome all these discussions. On the other hand, these enlargement steps made it more necessary to implement regional assistance programmes.

In 1985, the Schengen Agreement, signed by Germany, Belgium, France, Luxembourg and the Netherlands, envisaged the abolition of all visas and customs procedures among signatory countries and joint visas and customs procedures for third-country citizens. Italy (1990), Spain and Portugal (1991), Greece (1992), Austria (1995), Sweden, Finland and Denmark (1996) also signed the agreement. In order to include Iceland and Norway, which are not members of the Union, in the EU's free movement area an agreement was signed with these two countries in 1999. In 2005, Switzerland, which is the third non-EU Schengen country after Iceland and Norway, accepted the Schengen Agreement as a result of a referendum. Currently the Schengen Area composes of 25 countries.

With the European Single Act signed by 12 members of the EU in 1986, the Treaties establishing the European Communities have undergone a

² The Ministry of Foreign Affairs Directorate of EU Affairs (Dışişleri Bakanlığı Avrupa Birliği Başkanlığı), Enlargement of the European Union (Avrupa Birliğinin Genişlemesi), <https://www.ab.gov.tr/109.html>, (accessed on 7 February 2019).

comprehensive change. One of the changes is that the European Parliament's legislative powers increased with the introduction of the cooperation and assent procedures. The most important change that was agreed with this Treaty was that a programme would be provided to create a single market by 1 January 1993, based on the White Paper prepared by the Commission under the presidency of Jacques Delors in 1985.

In the beginning of 1990s, with the fall of the Berlin Wall, the unification of the two Germany, the liberation and democratization of the Central and Eastern European Countries, in order to strengthen the bond among the MSs the Maastricht Treaty, also known as the Treaty on European Union (TEU), was signed in 1992 and entered into force in 1993. With the Maastricht Treaty, the Community institutions were strengthened and had broader powers, and the EU replaced the EEC as a new term. With this Treaty, until 1999, it was decided to complete the monetary union, to establish European citizenship and to establish common foreign and security and cooperation policies in justice and home affairs. With the Maastricht Treaty, a three-pillar EU structure was created. The first pillar of this structure was the European Communities (ECSC, EEC and EURATOM), the second pillar was the Common Foreign and Security Policy and the third pillar was Justice and Home Affairs.

Austria, Finland and Sweden joined the EU on 1 January 1995, and the number of MSs increased to 15. In the period after the Cold War, when the Union tried to move to the common currency "Euro" and enlargement was seen as an important tool in the development of the EU, the application of these countries, which were already considered "European", was welcomed.

In June 1997, a Treaty, which is amending the TEU, the Treaties establishing the European Communities and certain related acts, was signed in order to reform the EU institutions in preparation for the arrival of future member countries at the summit in Amsterdam and entered into force in May 1999. In this sense, as stated in the subarticle-5 of article-1 in the Treaty, one important objective is to promote economic and social progress through the creation of an area without internal frontiers, through the strengthening of

Table 1: The Maastricht Treaty structure and the three-pillar

European Union		
Supranational	Intergovernmental	
European Community (Economic integration)	Common Foreign and Security Policy	Justice and Home Affairs (Police and judicial cooperation in criminal matters)
Treaty establishing the European Community	Treaty on European Union	

Source: Baldwin, Richard and Wyplosz, Charles, *The Economics of European Integration*, 2012, p. 55

economic and social cohesion and through the establishment of the EMU, ultimately including a single currency.

Another Treaty, which was again amending the TEU, the Treaties establishing the European Communities and certain related acts, was agreed upon in Nice Summit in December 2000, was signed in February 2001 and entered into force in February 2003. As stated in its preamble it was desired to complete the process started by the Amsterdam Treaty of preparing the institutions of the EU to function in an enlarged Union.

The euro, the common currency of the EU, was officially introduced on January 1, 2002 and started to be used in 12 countries. In order to be accepted as a member of the EA, Maastricht Convergence Criteria should be

met by the countries, except those³ that have obtained privileged positions during accession negotiations. Currently the EA composes of 19 countries of the EU⁴.

For the first time, the Union made such a great enlargement that the number of EU MSs reached to 25 in 2004 with the participation of Czech Republic, Estonia, Greek Cypriot Administration of Southern Cyprus, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia. With the participation of Bulgaria and Romania in 2007, the EU became a large family of more than 450 million citizens, consisting of 27 MSs. This enlargement process, which is very different from the previous enlargements in terms of both quality and quantity of the candidate countries and the depth reached by European integration, has been very painful both for the candidate countries and the EU⁵. Candidate countries have reorganized almost all aspects of social life within the framework of the Copenhagen membership requirements⁶.

After the participation of 12 new members, in order to enable the EU make decisions simply and efficiently, a draft EU constitution was signed in 2004.

³ Denmark and the UK negotiated an 'opt-out' from the euro, while the remaining countries have to meet the conditions for adopting the single currency.

⁴ You can refer to the detailed discussion about the euro and the EMU in the following sections.

⁵ The Ministry of Foreign Affairs Directorate of EU Affairs (Dışişleri Bakanlığı Avrupa Birliği Başkanlığı), Enlargement of the European Union (Avrupa Birliğinin Genişlemesi), <https://www.ab.gov.tr/109.html>, (accessed on 7 February 2019).

⁶ The Copenhagen criteria are key criteria also called as accession criteria and were firstly defined in the European Council in Copenhagen in 1993. They are the essential conditions in order to become an MS. These are: political criteria (stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities); economic criteria (a functioning market economy and the capacity to cope with competition and market forces) and administrative and institutional capacity to effectively implement the *acquis* and ability to take on the obligations of membership.

This would have replaced all the existing treaties, but was rejected in 2005 with referendums in two MSs, France and the Netherlands.

Following the rejection of the draft Constitution, the Lisbon Treaty was signed in 2007 and came into force in 2009. As stated in its preamble, it was desired to complete the process started by the Amsterdam Treaty and by the Nice Treaty with a view to enhance the efficiency and democratic legitimacy of the Union and to improve the coherence of its action. This treaty, the last important step in the deepening of the EU with an aim of eliminating the blockages in the EU's decision-making mechanisms and to achieve a more democratic and effective functioning of the Union, amended the previous treaties and included most of the changes in the draft Constitution⁷.

Table 2: The Lisbon Treaty structure and the two-pillar

European Union	
Supranational	Intergovernmental
<ul style="list-style-type: none"> • Economic Integration • Justice and Home Affairs 	Common Foreign and Security Policy
Treaty on European Union	
Treaty on the functioning of the European Union	

Source: Baldwin, Richard and Wyplosz, Charles, *The Economics of European Integration*, 2012, p. 55

⁷ The European Commission, *Europe in 12 Lessons*, 2018, p. 14.

Croatia, which was declared as a candidate country in 2004, became the 28th EU MSs as of 2013. After Slovenia, Croatia is the second country from former-Yugoslavia to join the EU.

It can be argued that European integration process, which started with the establishment of the ECSC in 1951, has always progressed in a positive way, and in this sense, all the above-mentioned issues were the steps forwarding this process. However, there are two important issues that weaken the integration process as exceptions to the enlargement process: Brexit (Britain's exit from the EU) and Turkey's everlasting EU membership process. It is seen that discussions about these issues have a very old history. Firstly, Britain applied to the EU (the EEC at that time) for membership in 1961 and became a member in 1973 with the end of France's blockade. Throughout the membership process Britain has also obtained some exceptions such as exclusion from the EA and the Schengen Area. Brexit is a clear separation/disintegration movement resulting from long debates in the historical course of the EU. On the other hand, Turkey's EU membership process began with the Ankara Agreement in 1963 providing for the establishment of partnership. The membership process, with various disruptions before, resumed in 1986. Turkey was included among the candidate countries for membership in 1999 and began negotiations in 2005. While this is an enlargement movement that would make a big contribution to the integration of Europe, both sides, Turkey and the EU, could not benefited yet from this advantage. Nowadays, Turkey's membership process has become a process that is unpredictable and it seems that political obstacles rather than technical obstacles have come to the forefront.

2.2 Economic Fundamentals of European Integration within the framework of European Integration Theories

At present the EU has succeeded in the transition to the most advanced stage of economic integration which is called as the EMU. There is no other example like the EMU in terms of scale and complexity. It should not be missed that the EMU is two-dimensional; both as an "economic union" and a "monetary union" and is developed taking into account mostly the expectations of the EU⁸. The EA is not only a monetary union area where common currency is used and common monetary policy is implemented, but also is an area where macroeconomic policies are coordinated and converged among the MSs, economic policies are harmonized, which paved the way for highly advanced states of economic integration.

Theoretically and in general practice economic integration, which can be defined as efforts to reduce the degree of division and fragmentation among national economies, includes some steps. Each step⁹ below includes all the features of the previous ones:

1. Preferential trading area: Customs tariffs among certain countries are reduced. This step is the weakest phase of economic integration.
2. Free trade area: There are no internal tariffs on some or all goods among the participating countries. National policies are followed in economic relations with third countries.
3. Customs union: In this step, which is a further stage of economic integration, external customs tariffs are same for third countries and there is a common trade policy among the participating countries.

⁸ Akçay, Belgin, Euro Alanın Ekonomisine İlişkin Bir Değerlendirme, Avrupa Çalışmaları Dergisi, Cilt 5, No:2 (Kış:2006), p. 1-27, p. 4.

⁹ The European Commission, One Currency for One Europe, 2015, p. 1.

4. Common market: There are common product regulations and free movement of goods, capital, labour and services among the participating countries.
5. Economic and monetary union: This step includes a single market with a single currency and monetary policy.
6. Complete economic integration: This step is the most advanced phase of economic integration, and includes all the above features as well as harmonisation of fiscal and all the other economic policies. Fiscal Union is included in this phase.

Today, it is seen that EMU is in effect only in Europe. EMU is used to refer to economic integration in the EU as a last but developing phase especially in terms of fiscal policy harmonization. Economic policy making, basically monetary policy and fiscal policy, which are the main elements of the EMU, are managed at national or EU level, or by a mixture of these two authorities (please see Table 3 below for responsibility areas of the EU and its MSs). While monetary policy is managed by the ECB (see next chapters for further discussion), fiscal policy is in the sovereignty of the MSs.

However, since the public finances of the MSs and the EU are highly correlated, the EMU includes some rules related with public finances valid for all EU countries and enforced by the EU to preserve economic stability¹⁰. The Stability and Growth Pact (SGP - introduced in 1999), the European Semester (introduced in 2010), and the Fiscal Pact (introduced in 2012), are the main instruments of the EMU for economic policy making in EU countries.

Although the EU has established the EMU and other integration or cooperation areas such as the Schengen Area, the Single Market, the Banking Union, etc. the defects in the existing architecture raise questions about the forms, regions, subjects and speed of these integration processes as well as

¹⁰ The European Commission, Economic and Monetary Union and the Euro, 2014, p. 7.

Table 3: Responsibility areas of the EU and its MSs

The EU alone	Shared responsibility between the EU and the MSs	The MSs alone but the EU may play a supporting or coordinating role
<ul style="list-style-type: none"> – customs union; – rules governing competition within the single market; – monetary policy for countries using the euro; – conservation of marine biological resources under the common fisheries policy; – common commercial policy; – concluding an international agreement when this is provided for in EU legislation. 	<ul style="list-style-type: none"> – the single market; – aspects of social policy as defined in the Treaty of Lisbon; – economic and social cohesion; – agriculture and fisheries, except for the conservation of marine biological resources; – the environment; – consumer protection; – transport; – trans-European networks; – energy; – creating an area of freedom, security and justice; – aspects of common security challenges relating to public health, as defined in the Treaty of Lisbon; – research, technological development and space; – development cooperation and humanitarian aid. 	<ul style="list-style-type: none"> – protection and improvement of human health; – industry; – culture; – tourism; – education, vocational training, youth and sport; – civil protection; – administrative cooperation.

Source: European Commission, Europe in 12 Lessons, 2018, p. 44,45.

the possibility of disintegration especially after the Brexit. Discussions on these issues will be examined in Chapter 6 of this study.

2.3 Economic and Monetary Union

In the last quarter of 2008 the chain events in the financial markets started and transformed into an economic crisis and even political crisis with implications on social life in the EU such as decrease in purchasing power, high unemployment and social expenditures cuts. It seems that the defects in the structure of the fiscal system in the EU are difficult to improve because of the absence of an EU central government with power to collect and spend tax. In other words, the failure to establish an integrated political union at an adequate level is seen as a major deficiency in the management of the EA. In this context, within the economic governance system of the EA, heterogeneous features such as the structural rigidities of EA member countries, political divisions and different implementations in the financial sectors are seen as serious defects in the original design of the EMU.

More specifically, the problems that have arisen since the euro's first use in 1999 are seen as inevitable consequences of the compulsory use of a single currency by a group of countries whose economies show heterogeneous characteristics (such as different economic structures, financial traditions and social behaviour) rather than bureaucratic faults or accidents. Therefore, to be sustainable, the EMU, which can be regarded as a success story throughout its history, requires coordination of monetary and fiscal policies, prevention of the negative effects of the enlargement process, and the enhancement of functionality and efficiency of the harmonization mechanisms necessary for fight against asymmetric shocks, which will be more discussed in the following sections.

Before the evaluation of recent economic policies in response to the crisis and the effects of these policies to the future of European integration, it would be useful to provide information about the economic history and main building blocks of the EMU in this section. This would also provide us a framework under which we can conclude at the end of this study that the EMU is an inevitably and continuously evolving structure into a more integrated region with some defects.

2.3.1 Development Process of the Economic and Monetary Union

Currently, although participation to the Union continues and the number of members has reached 28, as far as the convergence levels of the EU MSs permit, the euro is currently used by 19 EU MSs, which constitute the EA. Two countries (Denmark and the UK) opted out of the euro at the time of the Maastricht Treaty. Others have not yet met all of the economic criteria required by the Maastricht Treaty to adopt the euro, for instance the stability of prices and exchange rates¹¹.

A plan to establish the EMU among the MSs was first brought to the agenda with the Werner Report of 1970. In the report, by a high-level group consisting of European leaders under the chairmanship of the Luxembourg Prime Minister, Pierre Werner, how the EMU could be achieved until 1980 was discussed¹². In the framework of a mechanism called "Snake in the Tunnel", which was created in 1972, some European countries freed the movement of their money in a band with lower and upper limits to control the fluctuations of their currencies against the dollar. However, the collapse

¹¹ Ibid., p. 4.

¹² The European Commission, One Currency for One Europe, 2015, p. 3.

of the Bretton Woods System¹³ in the early 1970s and the first oil crisis in 1973 prevented realization of these plans.

In 1979, the EMS was established. Within the system fixed but adjustable exchange rates among the member countries were employed to reduce exchange rate instability by the the help of Exchange Rate Mechanism. Additionally, a European Currency Unit (ECU) was created for this system to function well. Thus, the ECU, which was a valid currency for the entire EU, served as a common ground for the exchange rate mechanism, a reference price for intervention and a currency used among central banks of the MSs.

With the creation of the EMS, consensus that inflation as an economic priority should be controlled and reduced by the EU countries was established. Because exchange rate instability may be detrimental to investment, trade and economic growth, before the EMS, exchange rates could only be changed by mutual agreement of participating EU countries and the Commission. In this sense, the EMS could also be viewed as a radical move because it meant a transfer of a portion of monetary autonomy¹⁴.

Even though in the initial years, there were many realignments in the EMS, the EMS proved to be successful through time. In this sense, until the Maastricht Treaty in 1992, short-term volatility of exchange rates among EC currencies was substantially reduced thanks to a mixture of converging inflation rates, interest rate management which targeted the exchange rate, joint intervention in foreign exchange market and capital controls¹⁵.

¹³ This was the economic system that emerged in the conference that took place in Bretton Woods town of the US after the WW-II in order to revitalize the economies that were damaged during the war. In this international monetary system from 1944 to 1971 the gold-foreign exchange standard was used. In this system the US dollar was pegged to gold, and other currencies were pegged to the US dollar.

¹⁴ The European Commission, *op. cit.*, p. 4.

¹⁵ *Ibid.*, p.4.

In 1985, a White Paper from the Commission on “completing the internal market” was published. In the paper, within 7 years period, some measures regarding abolishing all physical, technical and tax barriers are proposed for the completion of the single or internal market, which was intended to be a large, unified economic area on a par with the US¹⁶.

Following the negotiations among the MSs, the Single European Act, a new Treaty, came into force in 1987, and the idea of forming an EMU was revived. Its provisions included¹⁷:

- extending the powers of the EEC in some policy areas (such as social policy, research and the environment);
- establishing the single market by the end of 1992;
- making more frequent use of majority voting in the Council of Ministers, to ease to take decision taking about the single market.

At the European Council in Madrid in 1989, the EU leaders adopted a three-stage plan for the EMU. This plan became part of the Maastricht Treaty. By adopting the Maastricht Treaty, the EU governments agreed to launch the EMU until the end of the century. In order to take full advantage of the benefits of the single market, it would be appropriate to use a single currency. For this purpose, the EMU was carried out in three stages as follows:

1. Stage 1 (1990-1993) included the elimination of internal barriers to persons, goods, capital and services.
2. Within the scope of Stage 2 (1994-1998), the European Monetary Institute was established for the technical preparation of the single currency.

¹⁶ The European Commission, *Europe in 12 Lessons*, 2018, p. 48.

¹⁷ *Ibid.*, p. 48.

3. In Stage 3, which started in 1999, it was possible to carry out euro transactions at the level of bank accounts, and in 2002, euro paper and coins began to replace national currencies.

It was necessary for the MS economies to achieve a high degree of convergence before using the single currency. Therefore, the Maastricht Treaty set the "Maastricht convergence criteria" that EU countries would have to meet in order to adopt the euro¹⁸ (please see next section for detailed discussion).

However, while studies for a monetary union were on track and it was expected soon to be completed, fiscal issues should have not been neglected. The failure to establish a fiscal union at an adequate level will be a major deficiency in the management of the EA. In this sense, in 1997, the SGP, aiming to ensure budgetary discipline under the EMU and monitored by the European Commission (EC), was accepted (please see next section for detailed discussion).

2.3.2 Fundamentals of Economic Integration Process

There are many features of the EMU as discussed above. While some of them are valid in general at theoretical level, some features are only specific to Europe and provide the continuation of unity in the EU. While efforts are made for the competitiveness and realization of economies of scale¹⁹ in the EU or EA by the process of harmonization of commercial behavior, information and price differences, there are also various problems related to

¹⁸ The European Commission, One Currency for One Europe, 2015, p. 6.

¹⁹ As an economic term, economies of scale refer to the cost savings provided by the increase in production level under the assumptions of fixed input prices and working at full capacity.

the integration process. In this section, the main characteristics and related problems of the EA under the headings below will be discussed.

2.3.2.1 Is "euro" a real single currency with no problem?

In addition to contribution to the political integrity of Europe significantly, the euro is the second largest reserve currency after the dollar. The euro, which serves as the reference currency for the EU in order to be the largest export and import market in the world, also provides a significant reduction in transaction costs and exchange rate risks²⁰. However, the EA countries handed over their control on monetary policy to the independent ECB in Frankfurt. As a result, considering different characteristics of countries, it is difficult to adopt a policy that fits all and especially necessary mechanisms of adaptation against asymmetric shocks are not implemented²¹.

When the euro was first designed, it was considered as a kind of gold standard. The main binding element for the EA members is the fact that devaluation is not possible, as in the gold standard²². In the original design, a neutral approach was adopted; accordingly, the economy would be able to comply with the changing conditions only by the help of relative price movements without the need for various monetary policies.

²⁰ Keller, Emma, Quermane, Hugo B., Fiscal Policy Coordination before the Crisis, Harvard Kennedy School, 2013, p. 2.

²¹ Asymmetric shocks are unstable conditions that differ in an MS or a few of them or regions of the same country. Economic instability caused by social turbulence or political problems in a country can be given as an example. Another example is that the rise in oil prices affects countries differently.

²² Schwartz, Pedro, Why the Euro Failed and How It Will Survive, Cato Journal, Vol. 33 No. 3, 2013, p. 521.

The economic crisis, which has been influencing the EU since 2009, clearly demonstrates that there are defects in the design of the euro. In this context, one of the biggest obstacles in front of the euro seems expansionary fiscal policies implemented in order to finance European welfare states. Detailed discussion of these shortcomings and solutions are given in the following sections.

2.3.2.2 Is there any optimality in the EA?

There will be no or little regional integration in the absence of optimality, which means coexistence of best conditions in the region. According to the Optimal Currency Area (OCA) theory²³, some conditions should be met by countries to form an OCA and benefit from the single money²⁴:

1. high elasticity in workers' mobility and wages,
2. a large diversity of product,
3. openness to trade,
4. symmetry in business cycles and
5. central financial transfer mechanism.

When the first three condition of the OCA theory and the economic criteria expressed in the Maastricht Treaty (rules on inflation, interest rates, budget deficit, public debt and exchange rate stability - detailed information on these rules are given in the following pages) are evaluated together, it is seen that the EA has partially met the rules of the OCA but, all in all, it can be

²³ Robert A. Mundell (1961), a macroeconomist of the post-WW II period, who embraced the Keynesian view, is considered the intellectual father of the OCA theory. Further comments have been added to Mundell's approach by Ronald McKinnon (1963) and Peter Kenen (1969).

²⁴ Arnold, Chris, Schmidt Padilla, Carlos, Market Integration in the Eurozone, Harvard Kennedy School, 2013, p. 3.

concluded that the EA makes progress in terms of OCA criteria in small steps. The current situation of the Union regarding the OCA criteria is examined below.

For the first condition of the OCA mentioned above it could be argued that a way to tackle unemployment in a country in the monetary union affected by crisis is to pull partly idle labor force of other countries in that union. However, despite the Schengen Treaty, a wide range of different cultures and languages in the EU is seen as an obstacle to labor mobility. In addition, while, in some countries in the EA (Germany and Benelux²⁵), wages are more flexible against business cycles and asymmetric shocks, in some other countries (France), wages are less flexible.

The related sub-conditions in the framework of the first condition are free movement of goods, capital, persons, and prices, i.e. there should be a single market with free competition. Although the EA has these four freedom areas, the ECB's setting single interest rate for the entire EA pushes away the EA from optimality. Solutions to this could include allowing devaluation in different regions of the EA and flexible exchange rates at local level to break the rigidity of single monetary policy²⁶. Besides, the more open monetary union is to world trade, the more effective the use of single currency will be.

As the second condition of the OCA, product diversification needs to be increased in countries where monetary area is established. In addition to diversification in countries' production and exports, they also must have similar production and export structures. The countries affected most by shocks are those that specialize in production of a narrow range of goods. In order reduce the likelihood of asymmetric shocks OCA countries should

²⁵ Benelux is a union based on political and formal cooperation, which explains the geographical coexistence of Belgium, the Netherlands and Luxembourg.

²⁶ Schwartz, Pedro, op. cit., p. 526.

be well diversified in production²⁷. Differences in European trade show that each of the EA member countries has increased their competitiveness by specializing in areas where they have comparative advantage or by creating their own brands in the production of similar goods²⁸.

According to the third condition of the OCA, countries that are open to trade and trade intensively with each other can create an OCA. It is seen in the table below that openness index²⁹ for all the EA countries are above 50%.

As the fourth condition of the OCA, when there is no adjustment in business cycles, in the case of significant changes in demand and supply effects of monetary policy will differ in each member country. From the 1980s onwards, before the use of the euro, while there was a strong correlation in business cycles among Austria, the Benelux countries, Germany and France, this relationship was not seen in their southern neighbors (Greece, Italy, etc.)³⁰. Today, despite the increasing trade among countries and the introduction of the euro into circulation, there is no harmonisation in business cycles due to persistent structural differences such as in unemployment, inflation, fiscal policies, and labor markets.

For the fifth condition of the OCA, it can be argued that a centralized financial transfer mechanism in the EU could only be established partially only after the crisis. In this context, a central funding mechanism, called the European Stability Mechanism, was established in 2011 to provide financial support to

²⁷ Baldwin, Richard and Wyplosz, Charles, *The Economics of European Integration*, 2012, p. 414.

²⁸ Akçay, Belgin, *op. cit.*, p. 15.

²⁹ Openness index is defined as the ratio of international trade (total of exports and imports) to GDP.

³⁰ Arnold, Chris, Schmidt Padilla, Carlos, *op. cit.*, p. 6.

Table 4: Openness to trade (% , 2002 and 2017)

GEO/TIME	2002	2017
EU (28)	64,7	87,7
EA (19)	66,5	89,9
Belgium	135,1	170,4
Denmark	84,6	102
Germany	60,8	86,5
Estonia	124,1	148,5
Ireland	163,8	209,4
Greece	50,3	67
Spain	55	65,7
France	53,1	62,9
Italy	48,2	59,4
Southern Cyprus	123,6	133
Latvia	83,3	122,1
Lithuania	100,4	159
Luxembourg	258,8	412,9
Malta	218,9	280,4
Netherlands	113,5	155,2
Austria	86,9	104,4
Portugal	62,2	84,6
Slovenia	103,3	156
Slovakia	122,2	190,7
Finland	69,3	76,7
Sweden	77,7	87
Turkey	47,5	54,1

Source: Compiled from the data released by the statistical office of the EU (Eurostat)

the MSs with debt problems. However, the effectiveness of this mechanism is limited due to the lack of additional instruments required, and general hegemony of the EA members on their national budgets and fiscal policies still continues.

From the above discussion it can be inferred that many of the countries included in the EA, meet the criteria of “product diversification”, “openness

to trade”, but are not successful enough to meet the criteria of “high elasticity in workers’ mobility and wages” and “symmetry in business cycles”. The criterion of “central financial transfer mechanism” is in development process. Therefore, it can be concluded that the EA carries some of the features of an OCA but it has to make significant progress in terms of the remaining criteria.

2.3.2.3 Is there homogenous inflation among the MSs?

In a monetary union, theoretically it is expected that inflation rates among the member countries show homogeneity. If the economic conditions of the countries that want to take part in an OCA are different, they should be harmonized especially in terms of inflation and unemployment³¹. When there are different inflation rates among countries, the effects of the interest rate determined by the single central bank will also differ among countries³². On the other hand, incompatible economic fluctuations will feed the imbalances of the effects of central bank policies.

While temporary inflation differentials are not usually seen as a matter of concern, persistent inflation differentials have been among the factors behind the build-up of imbalances (e.g. price and cost imbalances) in the EA. By contrast, the narrowing of inflation differentials helps to make financial conditions, as measured by real interest rates, more similar across EA countries³³. It is observed that the dynamics of long-term interest rate

³¹ Özalp, Hüseyin, Avrupa Parasal Birliği’nin Optimal Para Alanı Teorisi Çerçevesinde Analizi, Çukurova Üniversitesi Yüksek Lisans Tezi, 2011, p. 26.

³² Arnold, Chris, Schmidt Padilla, Carlos, op. cit., p. 8.

³³ The European Commission, European Economic Forecast Winter 2018 (Interim), 2019, p. 54.

spreads vis-à-vis the EA average have been rather heterogeneous across the countries under review. This heterogeneity reflects differences in both the cyclical position and the financial markets' assessment of the countries' external and internal vulnerabilities, including developments in budgetary performance and the prospects for sustainable convergence to the EA³⁴.

2.3.2.4 Is single pricing possible for similar products?

In a monetary union, theoretically the law of one price asserts that there should be one price for similar goods and services. This facilitates the mobility of goods among member countries, strengthens trade relations and increases alignment in economic fluctuations³⁵. Within this context, since the beginning of the use of the euro, although the negative effects of structural and geographical barriers have been reduced, it can be seen that the price convergence could not be achieved at an adequate level (Figure 1).

2.3.2.5 Is there any way to transform and converge EU economies?

The TEU, also called the Maastrich Treaty, created the official basis for the single European currency, called as the euro, the ECB and the monetary union and stipulated that the MSs had to meet a number of convergence criteria to join the Union. The criteria for countries to achieve a sustainable

³⁴ The European Central Bank, Convergence Report, 2018, p. 51.

³⁵ Arnold, Chris, Schmidt Padilla, Carlos, op. cit., p. 9.

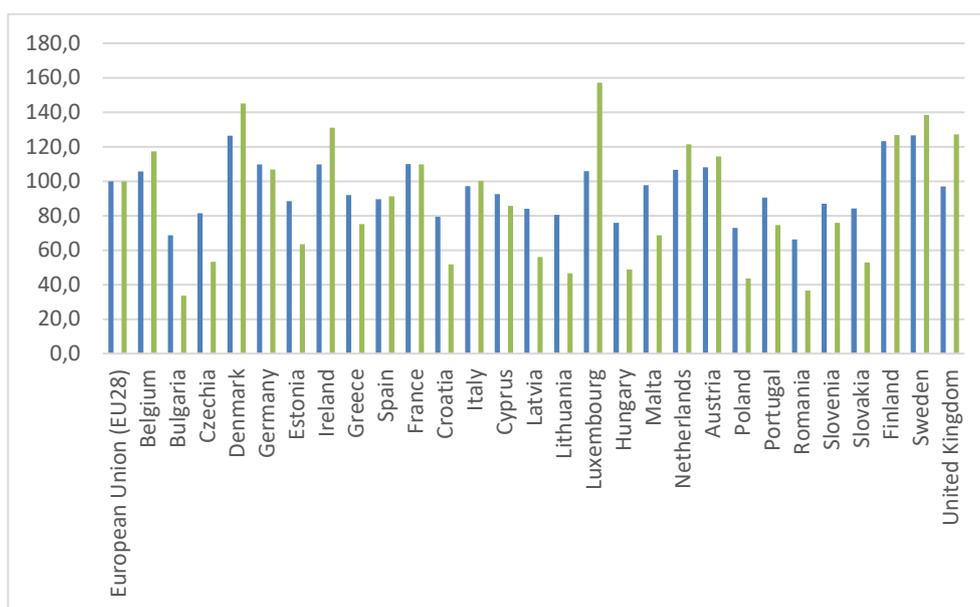


Figure 1: Total goods (blue) and total services (green) price level indices (EU28=100, 2017)

Source: Compiled from the data released by the Eurostat

convergence³⁶ before using the euro are listed in Protocol No. 12 and 13 of the consolidated version dated 2016 of the Maastricht Treaty:

- Price stability: The inflation rate should not exceed the average of the three countries with the best performance by more than 1.5 points.
- Exchange rate stability:
 - a) During the accession process, the national currencies should not be devalued and should be within the normal fluctuation ($\pm 15\%$).

³⁶ There are different dimensions of convergence such as nominal, cyclical, real and sustainable convergence. Maastricht Convergence Criteria are generally expressed as nominal indicators in order to become a member of the EA. On the other hand, it is considered that there is cyclical convergence if countries are in the same stage of the business cycle. It is highly possible that single monetary policy of the ECB is hard to implement and less effective when countries are in different stages. Real convergence should take into account high living standards and income levels including economic and social cohesion, full employment, growth and price stability. Lastly, sustainable convergence is a convergence process that is durable over time and ensures the long-term economic, social and political sustainability of the EMU.

- b) Countries should participate in the exchange rate mechanism³⁷ covered by the EMS.
- Interest rate stability: Long-term interest rates should not exceed the average of the three countries with the best performance in inflation rate by more than 2%.
- Public finances stability:
 - a) Annual budget deficit should not exceed 3% of GDP.
 - b) Annual public debt should not exceed 60% of GDP.

Criteria for price, exchange rate and interest rate stability from the above-list are evaluated to ensure monetary stability in the EA, while budget deficit and public debt criteria aim to protect the Union in fiscal terms.

It is expected that the countries which become member of the EMU will continue to meet these rules after they have entered the Union. Otherwise, the MSs are subject to some sanctions. According to the Excessive Deficit Procedure regulated in the consolidated versions dated 2016 of the Maastricht Treaty (Protocol No 12) and the Lisbon Treaty (Article 126), in the event that the public debt and the budget deficit continue to exceed the limit values, a fine may be imposed in addition to various other measures. Exceptionally, these penalties are not applied during periods of natural disaster and economic stagnation.

There have been criticisms regarding the existence of criteria and the limit values determined³⁸. The main criticisms are about the necessity of the criteria, the lack of theoretical foundations and they are being political rather than technical. In practice, it is very difficult for countries to meet the criteria simultaneously. Moreover, better performing countries refrain from losing

³⁷ With the transition to Stage 3 of the EMU, a new exchange rate mechanism (ERM II) replaced the EMS.

³⁸ Yiğit, Dilek, Küresel Ekonomik Kriz Öncesi ve Krizin Etkileri İle Mücadele Sürecinde Avrupa Birliği'nde Ekonomi Yönetimi, Ankara Avrupa Çalışmaları Dergisi Cilt 11 No.1 p. 135-168, 2012, p. 139.

their credibility due to being in the same union with poorly performing countries. It is considered that even though these criticisms are acceptable to some extent, the convergence criteria are generally perceived as useful indicators for comparing the economies of member countries.

2.3.2.6 Is there any independent authority to manage the EMU?

Established in 1998 in Frankfurt (Germany), the ECB is a supra-national institution. There are personnel from all EU MSs and it performs its duties independently and without taking instruction from the governments of the MSs and the institutions of the Union. There are four main tasks of the ECB³⁹:

1. Implementing the monetary policy, for example interest rate decisions, adopted by the Governing Council⁴⁰. In this context, it can give instructions to national central banks,
2. Carrying out exchange rate transactions,
3. Holding and managing the official reserves of EA countries. National central banks within the Eurosystem⁴¹ are involved in the management of the foreign exchange reserves of the ECB.
4. Ensuring the proper functioning of payment systems and issuance of the euro banknotes.

The duties of the national central banks apart from the ECB are the execution of the single monetary policy in their own countries, the issuance and

³⁹ The European Central Bank, The Eurosystem, 2011, p. 13.

⁴⁰ The Governing Council consists of the six members of the Executive Board and the governors of the national central banks of the 19 EA countries.

⁴¹ The European System of Central Banks (ESCB) consists of the ECB and the central banks of all EU countries. Under the ESCB, the Eurosystem consist of the ECB and the national central banks of the EA, with the primary objective of price stability.

dissemination of the euro banknotes and the collection of national statistical information.

In the Maastricht Treaty, the independence of the ECB is legally guaranteed in order to make the ECB a political-free institution by preventing pressure of the MSs to establish a monetary policy in line with national fiscal policies.

Article 123 of the Treaty on the Functioning of the European Union, called as the Lisbon Treaty, prohibits extending credits directly from the ECB to the MSs and prohibits the purchase of government bonds from the primary markets by the ECB. On the other hand, according to Article 127 of the Treaty, the ECB can support the general economic policies within the Union without prejudice to the price stability target. In this context, bonds of the countries that have economic difficulties has been purchased in the secondary market by the ECB. The ECB eliminates the effects of this purchase by selling its other assets and thus remained within the institutional structure of Article 127⁴².

2.3.2.7 How compatible is the EU budget with the priorities of the Union?

The EU countries follow autonomous fiscal policies. The EU does not have any authority to impose and collect taxes directly. The revenues of the EU budget are composed of mainly three types of resources⁴³:

⁴² Schafer, Hans-Bernd, Çev. Aksoy, Hüseyin Can, Avrupa'da Ülke Borçları Krizi, Bankaları Kurtarın Devletleri Değil, Mülkiye Dergisi Cilt: XXXVI Sayı: 274, 2012, p. 93.

⁴³ The European Commission, EU budget own resources, https://ec.europa.eu/info/about-european-commission/eu-budget/revenue/own-resources_en, (accessed on 24 May 2019).

1. Traditional own resources: This category includes mainly customs duties and sugar levies.
2. Value added tax (VAT): VAT is cut by 0.3% from the harmonized VAT base of the MSs.
3. Gross National Income (GNI) revenues: A certain percentage of the MSs' GNI is transferred to the EU budget. This category constitutes the largest source of income (approximately 75%) of the budget.

The EU budget, principally, constitutes the financial base of all policies in the economic, political and social spheres. The size of the budget, the structure of income and expenditure items and the allocation of funds can give an idea about the priorities of the Union. Although the EU budget is small compared to the budgets of the member countries⁴⁴, it has an indispensable importance for the MSs for its macroeconomic guidance and providing funds through "European Structural and Investment Funds (ESIF)".

The ESIF has the most basic tools to ensure and maintain social and economic integrity consisting of five main funds: a) European Regional Development Fund (ERDF), b) European Social Fund (ESF), c) Cohesion Fund (CF), d) European Agricultural Fund for Rural Development, and e) European Maritime and Fisheries Fund⁴⁵. In the fiscal period of 2014-2020 these funds work together in supporting economic development across all EU countries. The EU aims to reduce the economic disparities by providing assistance to the MSs at the regional level through the ERDF and ESF, while through the CF aiming to bring the member countries closer by means of additional

⁴⁴ The budget of 2019, which is 165.8 billion euros, accounts for about 1% of combined EU income and only around 2% of public spending in the EU.

⁴⁵ The European Commission, European Structural and Investment Funds, https://ec.europa.eu/regional_policy/en/funding/, (accessed on 25 May 2019).

assistance at national level. Although all EU countries benefit from the ERDF and ESF, only the less developed regions can receive support under the CF⁴⁶.

Both the budget and the Multiannual Financial Framework (MFF), especially in times of crisis, reflect the current situation in the EU. The MFF is adopted for a 7-year period and the EU budget is adopted annually. In this framework the MFF establishes the limits of the EU budget. The MFF is not a concrete budget spanning several years, but rather it provides a framework for financial programming and budgetary discipline. It aims to ensure that EU spending is predictable and stays within the agreed limits, while also allowing the EU to deliver common policies over an extended period in an effort to maximise effectiveness.

According to the update made in 2019, in 2014-20 period, under the scope of the MFF, 1087 billion euros spending is committed. Among the five spending headings in the MFF, approximately half of the total expenditures (513,6 billion euros) is committed under the heading "Smart and Inclusive Growth". The second major item is "Sustainable Growth: Natural Resources" with 420 billion euros.

In the period of 2021-27, it is foreseen to be spent, yet in draft, 1279 billion euros under seven new headings. Among these headings, the three largest items are respectively "Cohesion and Values" with 442,4 billion euros, "Natural Resources and Environment" with 378,9 billion euros and "Single Market, Innovation and Digital" with 187,4 billion euros.

During the EA Crisis the EU budget and cohesion policy as powerful tools seemed to support investment and enable growth because the national budgets in many MSs are under severe strain since 2009. Another major contribution to relieve the sores of the economic crisis by mobilising private

⁴⁶ Since Turkey is not a member of the EU it can not benefit from the ESIF. As a candidate country only the Instrument of Pre-Accession Assistance (IPA) funds are provided as financial resources to Turkey. The IPA aims to create the necessary institutional structure for the ESIF to be used after accession to the EU and to strengthen the administrative structure.

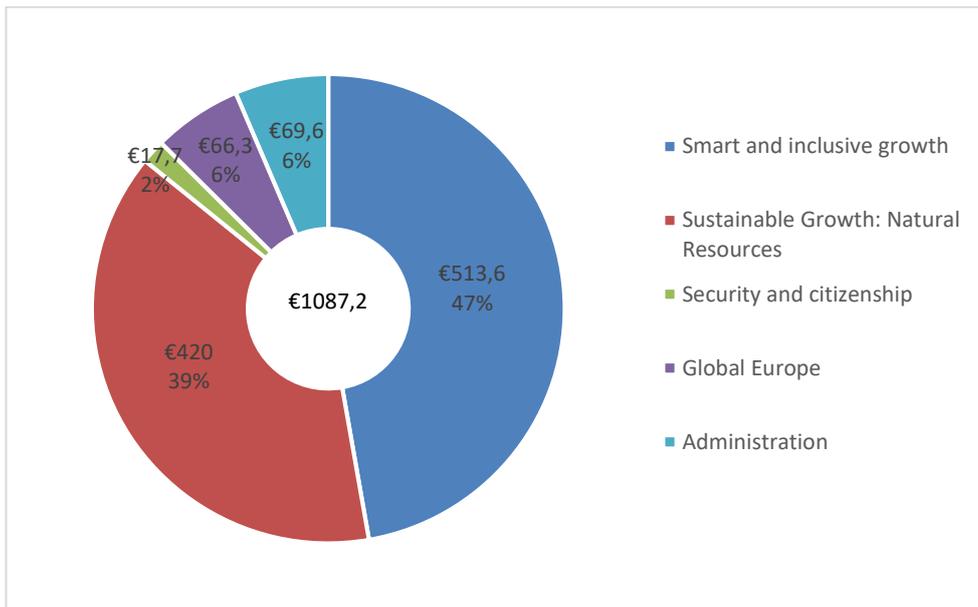


Figure 2: The MFF 2014-2020 (percentage and € billion)

Source: Compiled from the data in the report "The European Commission, EU Budget 2017 Financial Report, 2018"

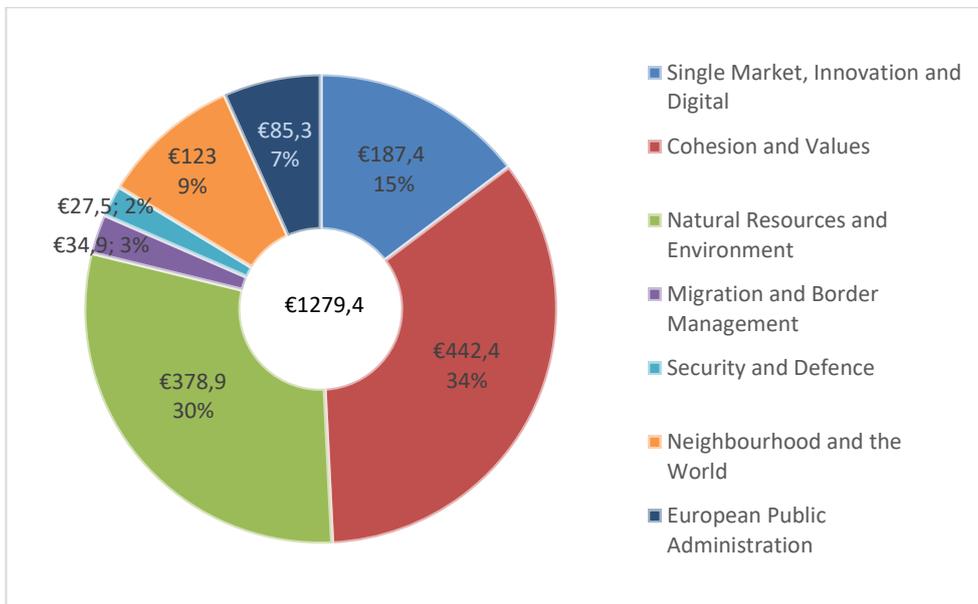


Figure 3: The MFF 2021-2027 (percentage and € billion)

Source: Compiled from the data in the document "The European Commission, EU Budget for the Future Volume 3 Factsheets, 2018"

investment is provided by the European Fund for Strategic Investments, which is established in 2015 and will operate until 2020 with a budget of 500 billion euros⁴⁷.

2.3.2.8 Does enlargement add new problems to old ones?

Within the fifth enlargement process that took place in 2004, serious economic development differences were pointed out and it was proposed that it would take a long time for new members to converge to the old ones' economic development level. In addition, specific transition periods were envisaged by the EU-15 to keep the additional costs of the new members low. In general, the enlargement is expected to be a win-win economic development for both the EU and candidate countries and lead to additional growth. The economic benefits expected from the enlargement for the old members are an expanding market and access to highly skilled workforce; for the new members in the long term to catch up with the welfare levels of the Western Europe, capital inflows, technology transfer, stable legal and economic structure of membership and assistance provided from the funds⁴⁸.

The challenges facing the EA since 2009 continue to occupy the EU agenda. In the EU enlargement strategy papers published annually it is stated that the enlargement process⁴⁹ continues and that the crisis will not hamper the

⁴⁷ The European Commission, Reflection Paper on the Future of EU Finances, 2017, p. 7.

⁴⁸ Dinç, Cengiz, Avrupa Birliği'nin Beşinci Genişleme Süreci: Ekonomik ve Siyasi Boyutlar, Ege Akademik Bakış Cilt 12 Sayı 1 p. 79-96, 2012, p. 80.

⁴⁹ Currently there are seven enlargement countries which are candidate or potential candidate. Among candidate countries Montenegro, Serbia, and Turkey are still negotiating; Albania and North Macedonia are waiting to start negotiating. Among potential candidate countries Bosnia and Herzegovina and Kosovo are promised the prospect of joining when they are ready.

enlargement process and even enlargement is seen as an important tool in the fight against the global crisis. Accordingly, a stronger and enlarged EU can better cope with the challenges experienced.

CHAPTER 3

EURO AREA CRISIS

We can claim that while economic and financial measures have been taken along with the crisis, it has become obvious that fiscal criteria had been ignored before 2009 and there are various weaknesses of the EA even after 2009. Another reason of the continuation of effects of the EA Crisis up to now is that there is a general violation of financial rules by member countries of the monetary union and no on-time-sanctioning of these irregular countries. Especially, violations of the rules before 2009 by some major countries such as Germany, France, the UK and Italy have made it more difficult to enforce the rules.

In this chapter the EA economies' historically strong and weak parts and main structural defects and the last crisis's long-term effects on the economies are tried to be elaborated. Examining the individual state of each country and the measures taken at MS level will also help us to see more closely the dimensions of the crisis. Today, the MSs in the EA still face major problems in terms of budget deficit and public debt as seen in the indicators of some countries also examined in the following pages. It can be inferred that given the violations of the MSs, it is more important than ever that countries should not be allowed to go beyond the limits set by the agreements and that borrowing policies should be controlled strictly. The response of the EU to the global crisis shapes not only the economic but also the political future of the Union.

3.1 Brief History of the Euro Area Crisis

It is observed that the EA Crisis has been the most severe global crisis since the Great Depression in the 1930s. Prior to both the Great Depression and the EA Crisis, the leading indicators of the crises are money and credit expansion, increased asset prices and extremely optimistic risk oversight⁵⁰. Another similarity between both crises is the fact that they start in the US and deeply influence the world economy.

In 2009, the US economy shrank by 2.8% and the EA by 4.5%⁵¹, the largest contraction in history for both regions. While the debt burden of the EU MSs was 7.4 trillion euros in 2006, it increased to 9 trillion euros at the end of 2009. Among the EU countries, Greece was the main actor as becoming the weakest link in the EA. At the end of 2009, the newly elected Greek Prime Minister announced that the previous government used fraudulent indicators in state accounting and the ratio of the budget deficit to GDP increased to 15.1% and the public debt to 301 billion euros in an instant from the values of 10.2% and 265 billion euros, respectively.

Europe, on the opposite coast of the Ocean, has become the external center of the global financial crisis due to its geographic proximity, its complex financial ties and deep and old trade relations with the US⁵². In addition to the general ties with the US, specific indicators of the crisis may include rapid credit expansion, low risk premiums, excess liquidity, increase in stock

⁵⁰ One can refer to "The European Commission, Economic Crisis in Europe: Causes, Consequences and Responses, 2009" for a detailed comparison of both crises.

⁵¹ The statistical data used in this chapter can be found on the website of Eurostat: <https://ec.europa.eu/eurostat/data/browse-statistics-by-theme> (accessed on 20 March 2019).

⁵² Kutlay, Mustafa, Stopping "Blame Game", Revealing the Euro Zone's Design Faults: 'Complex Intedependence Within The Nation-State Framework', *Uluslararası Hukuk ve Politika* Cilt 7 Sayı 27 p. 87-111, 2011, p. 90.

purchases as well as asset prices, and development of bubbles in the real estate sector.

In addition, financial institutions that have continued to extend loans to countries with excessive debts before the crisis have responsibility in the crisis. These financial institutions assumed that for the EA countries being in the monetary union and using common currency would be sufficiently credible, and illusively there was no concern that such countries could not repay their debts.

In response to the crisis, initially, the MSs have tried to solve problems with their own national mechanisms without consulting other EU MSs, for instance, Ireland announced a general insurance for bank deposits.

In Greece, the most affected country by the crisis, the government has adopted an adjustment program to bring the public deficit closer to the EU rates, but international rating agencies have found these measures insufficient and consequently Greece's ratings have been reduced. In fact, Greece's bankruptcy does not mean a life and death war for the region as its economic size is only 2% of the EA. However, the fact that an economy which should not be included in the system has been failed to be noticed or worse ignored (such as allowing it to be included in the Union for political reasons) has damaged the credibility of the EA by shaking the confidence of the markets in the whole system.

The future of a single monetary regime becomes open to severe discussions due to the national attitudes of the countries that accuse each other in the face of unexpected situations and defending their own interests. In the end, countries had to agree on the rescue packages that had been prepared in order not to jeopardize the future of not only the single currency, the euro, but also the EU. In this context, under EU-IMF partnership, bailout packages for Greece and potentially troubled countries were presented in the amount of 110 billion euros and 750 billion euros, respectively. Besides, the ECB was

allowed temporarily to purchase government bonds amounting 750 billion euros only from potentially troubled countries.

Bailout packages were perceived to be inadequate for the crisis due to the fact that, firstly, the packages are small compared to the total debt of the PIGS⁵³ (more than 2 trillion euros). On the other hand, the credibility of European leaders' commitments - as in the case of Greece - is doubtful, and in these packages, structural measures for the EA (pension system, health sector, taxation system, public financial management, debt management structure, measures for reporting statistical information) are given little place⁵⁴.

Another important factor related to the crisis is the tight dependence of banks and states, that increases the fragility of the EA. When approached from a national perspective, governments are individually responsible for their borrowing. In this sense, within the framework of the national perspective inherited from the past, in the financial system, states are solely responsible for rescuing banks in their jurisdiction.

On the other hand, in the process of monetary integration, the financial systems of the EU MSs have been rapidly integrated, the borrowing relations of the countries have been increased and the banking activities have deepened. Due to low risk premiums, some EU MSs have been able to borrow heavily. In an environment where countries are connected to each other by debt relations and deepened mutual economic and commercial relations, the EU has become open to domino effect as a whole.

In this sense, the Banking Union (BU) would be an important step towards a genuine EMU by breaking the direct relations between banks and countries. Although the BU is structurally incomplete, currently some steps are taken

⁵³ This abbreviation consists of the first letters of the English names of the countries Portugal, Italy, Greece and Spain.

⁵⁴ Ibid., p. 93.

for some functions of the BU in the way of making banking sector more robust especially in terms of excessive risk taking. On the other hand, it is important to give the BU some functions regarding risk reduction and risk sharing as means to definitively break the links between banks and national authorities⁵⁵ (the BU is discussed in the following chapters in detail).

When the statistics of the pre-crisis period are examined, between the years 1999 and 2009, the period between the first use of the euro and the start of the crisis, the "budget deficit / GDP" ratios of the member countries were realized in a rising but acceptable trend even though the upper limit of 3% was exceeded in some years⁵⁶. Similarly, the ratio of "public debt / GDP" for some countries (Belgium, Greece, Italy) between 1999 and 2009 was high compared to the limit value of 60%, but it was seen that the general average fell in 2007 and rose again in 2008. In this sense, no significant problems were experienced in the period between 1999 and 2009 due to the favorable economic conjuncture, the positive expectations of the economic actors regarding the EA and the fiscal measures taken.

It is observed that the "budget deficit and public debt" ratios to GDP of the MSs are highly differentiated. Therefore, following the crisis the priorities for solution of the MSs differ since a solution proposal that seems reasonable for an EU member may contradict with the priorities of other members, or the same policy may produce different results in two different countries. In other words, it becomes difficult to assess the debt burden of the EU as a whole and to bring forward a holistic solution proposal.

⁵⁵ The European Commission, European Financial Stability and Integration Review, 2017, p. 86.

⁵⁶ Kutlay, Mustafa, op. cit., p. 152.

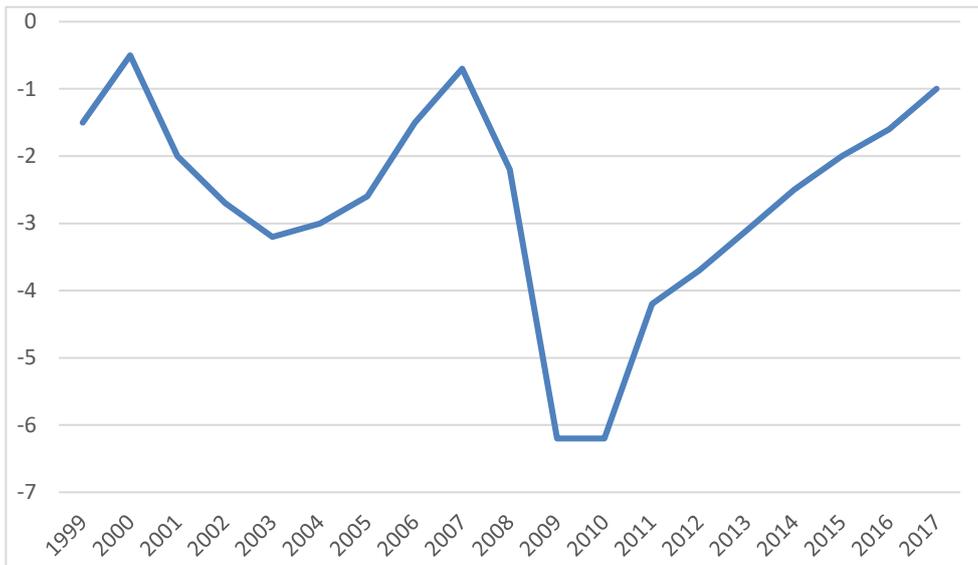


Figure 4: EA government deficit/surplus (percentage of GDP, 1999-2017)

Source: Compiled from the data released by the Eurostat

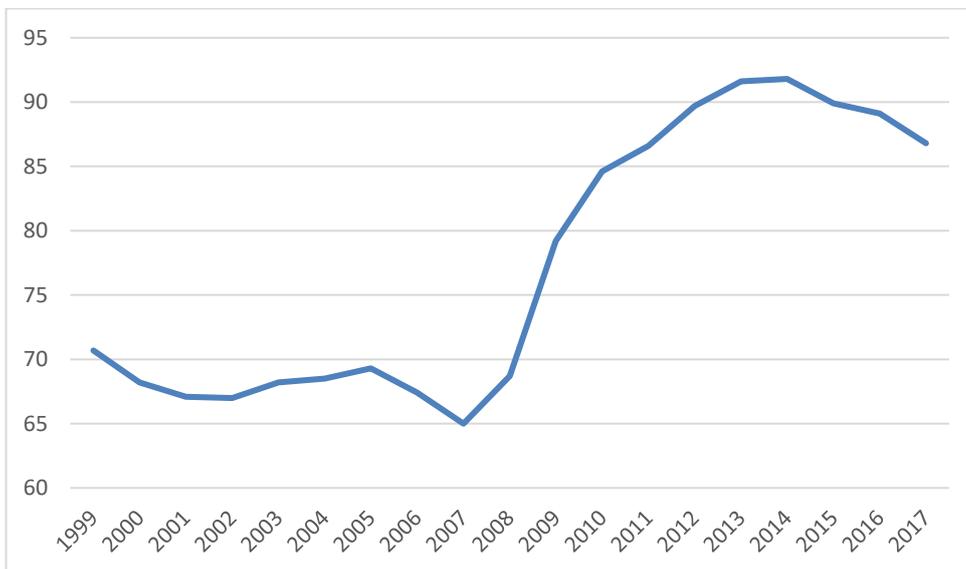


Figure 5: EA government debt (percentage of GDP, 1999-2017)

Source: Compiled from the data released by the Eurostat

Figure 6 demonstrates that the US, China and Japan show stable increases in GDP since 2010. In 2013 signs of termination of the contraction began to be received in the EU and in the EA since GDP increased by 0.3% at that time. However, there are still weak signs of recovery, while uncertainty and fragility remain as reported in the institutional papers of the EU.

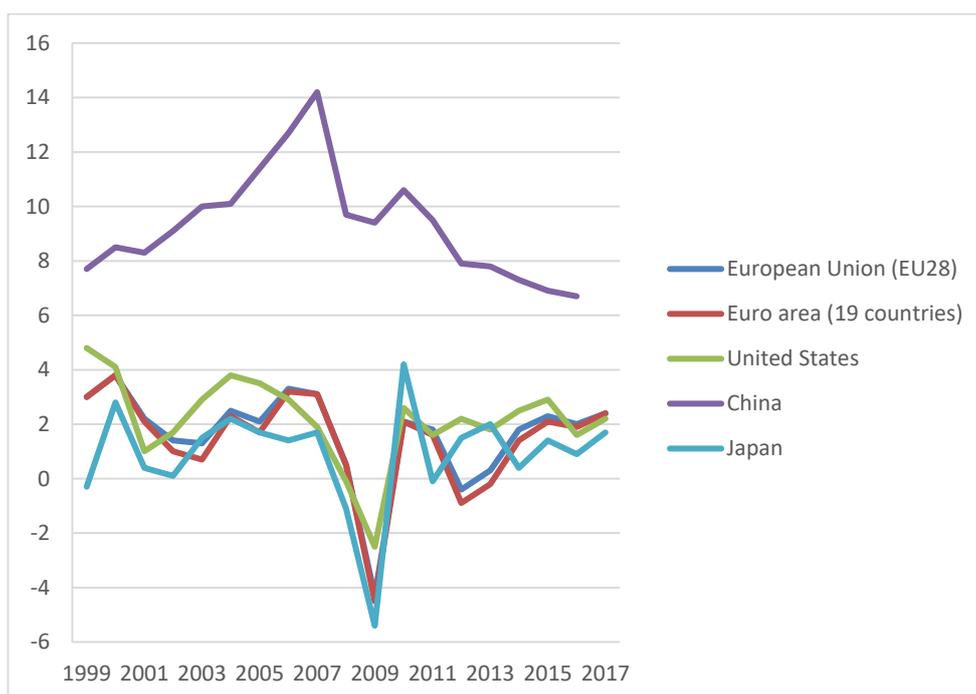


Figure 6: GDP (percentage change on previous period, market prices, 1999-2017)

Source: Compiled from the data released by the Eurostat

In a nutshell, it can be concluded that the main reasons for the negative developments in the fiscal area are the complexity of the sanction processes to be applied in case of violations of the determined limits and the fact that the political priorities are considerably important. In this sense, although structural measures are needed at national level, additional structural measures at EU level should also be taken seriously and rapidly.

During the ongoing crisis, it has emerged that the following basic elements are needed for a coordinated management⁵⁷:

- *Crisis prevention*: In order to prevent repetition in the future, it is necessary to determine the main causes of the crisis and to investigate its macroeconomic, regulatory and supervisory functioning.
- *Crisis control and mitigation*: By avoiding systematic faults and alleviating social stresses, the harm caused by the crisis is minimized. Therefore, it is aimed to stabilize the financial system and the real economy in the short term.
- *Crisis resolution*: Taking into consideration the systemic risks and protection of the consumer, it includes the termination of the crisis with the least possible cost for taxpayers.

Until present, most of the EU policies have been oriented at "*Crisis control and mitigation*". The first steps towards "*Crisis prevention*" (such as European Stability Mechanism, European Semester, Banking Union, etc.) have been taken only recently. Besides, acceptance of serious policies for "*Crisis resolution*" is delayed. On the other hand, efforts to create "fiscal union", which is one of main deficiencies of European economic structure, appear to progress. However, Brexit problem and budgetary debates among the MSs are challenging obstacles to create a "political union", which is assumed to be the remote and ultimate aim of European integration.

3.2 Main Developments in the Member States of the Euro Area

The euro crisis has affected all countries without exception, but affected them at different levels. Some countries have been able to fight the crisis well, while others have not been successful enough. A grouping of most and

⁵⁷ The European Commission, Economic Crisis in Europe: Causes, Consequences and Responses, 2009, p. 2.

least affected countries will help us see how the dimensions of the crisis differ at individual country level. Besides, this grouping provide us to elaborate the EA economies' historically strong and weak parts, their main structural defects and the last crisis's long-term effects on the economies.

Outstanding issues in the countries most affected and least affected from the crisis are summarized below in a comparative way with the help of basic statistics⁵⁸. The distinction between these two group of countries are mainly based on the change in their GDP, unemployment, inflation, government deficit and debt burden after the crisis. In the end, currently, it can be concluded that, from the country perspective, there are positive effects of the measures implemented in these countries on European integration in such a way that all these countries are now converging to each other within the established economic mechanisms.

3.2.1 The Most Affected Countries

Countries in this group have not been able to fight the crisis well enough as seen from their current economic indicators. This group of countries has important defects in their economic structure, and therefore, has distinctive negative changes in their main economic indicators after the crisis in comparison to the remaining EU countries. Another important common point among these countries is that there have been strong economic protests of the citizens because of austerity measures having political results such as frequent government elections. On the other hand, these countries, after 9 years following the 2009 crisis, have converged to other countries within the limits of the main indicators with the help of the mechanisms developed after

⁵⁸ The main statistical data for the period between 1999 and 2017 in the EU and EA which are mainly used in this section are obtained from the Eurostat.

the crisis. The current better-off situations in these countries may be a proof of continuous integration in the EU.

For example, as the weakest link in the EA, in Greece, the main sources of economic and social problems include financial imbalances, weak competitiveness, mismanagement, financial fraud and imperfect markets⁵⁹. It appears that Greece has entered the EMU for political reasons without respecting the Maastricht economic criteria and that its budget and debt policy have not been sufficiently followed up by Brussels. It has been revealed that Greece did not use agricultural, regional and structural funds efficiently after its accession to the EU in 1981; currently there is no competitive sector other than tourism⁶⁰. Besides, among other institutional and structural characteristics that lead to the crisis, there are weaknesses of the state structure such as civil servants' high salaries and wages in terms of their real contributions to production.

In Greece following the crisis, public revenues declined due to the decline in consumption expenditures and the contraction in foreign trade. On the other hand, public expenditures increased due to interventions in the financial system and increasing social security expenditures.

Greece, which is the most affected country by the global crisis due to wrong economic policies and structural problems, has received great financial support in fight against effects of the crisis. As solutions to heavy social costs, it may be possible for Greece to abandon its austerity policies, leave the EMU, use its own national currency, and devalue the national currency against the euro in the short term in order to regain its lost competitiveness

⁵⁹ Selçuk, Bora, Yılmaz, Naci, The Effects of Global Crisis into Euro Region: A Case Study of Greek Crisis, *European Journal of Economic and Political Studies* - 4(2), 2011, p. 61. An imperfect competition occurs if one of the conditions of full competition is missing. There are many types of imperfect markets in terms of suppliers and demanders. A detailed description of this concept can be found at "Dinler, Zeynel, *Mikro İktisat*, Ekin Kitabevi, 2019".

⁶⁰ Yılmaz, Bahri, Euro Krizinin Nedenleri, Sonuçları ve Türk Ekonomisi Üzerindeki Beklenen Etkileri, *Görüş Dergisi*, p. 16-22, Şubat 2012, p. 17.

in foreign trade. However, in the short term there would be additional heavy costs of this solution on the EU economies, and the positive effects could only be seen in the long term⁶¹.

For the first time after the crisis, in 2017, the growth rate in Greece was 1.5% and started to show positive figures. This growth rate is expected to continue in the future, where the economy heavily depends on the continuous implementation of reforms⁶². In order to achieve sustainable debt targets, more financial regulations and sustainable growth rates are needed. Greece, called analogically as "problem child" or "sick man" of the EU, is a test field and breaking point for better coordination and supervision of the EU's economic and monetary policies and protection of the EU and the EA.

On the other hand, as another example for most adversely affected countries, in Ireland, which is known as the "Celtic Tiger", the economy had exhibited high growth rates through foreign direct investments and exports until 2007 and was severely affected by the global financial crisis in 2009. The main reasons of the severe effects were due to inflation in the real estate market by low interest rates, tax reduction policies and vast credit opportunities provided by the banks in the 1990s⁶³.

Following the crisis, as a result of the expansionary fiscal policy implementations of the previous period, the government had to pump capital to save banks, and consequently, the "public debt / GDP" ratio increased to 119% in 2013. In the following years, with the downward trend in expenditures, there was a significant decrease in the ratio of public debt and the ratio decreased to 68.4% in 2017. The "budget deficit / GDP" ratio, which

⁶¹ The Ministry of Foreign Affairs Directorate of EU Affairs (Dışişleri Bakanlığı Avrupa Birliği Başkanlığı), Yunanistan'ın Euro Bölgesi'nden Ayrılmasının Olası Ekonomik Etkileri, Temmuz 2012, p. 15.

⁶² The European Commission, European Economic Forecast Winter 2019 (Interim), 2019, p. 16.

⁶³ Yılmaz, Bahri, op. cit., p. 18.

reached its maximum value of 32% in 2010, declined to 0.2% in 2017 due to a significant increase in tax revenues and a decrease in social expenditures. The positive trend in employment is a key indicator of the recovery for the Irish economy so that the unemployment rate reached 4.5% in 2017, following a peak of 10.2% in 2012.

Despite the current positive outlook of the economy, there are also some uncertainties. This is primarily due to the terms of the UK's withdrawal from the EU. Besides, Ireland is a highly open economy and is particularly exposed to changes in the international taxation and trade environment. Frequently, there can be important but unpredictable activities of multinationals, that can drive growth either up or down⁶⁴.

As another example of adversely influenced economy by the crisis, in Italy, the third largest economy in the EA, mainly inefficient budgetary policies and excessive borrowing have caused the crisis to be severe. Excessive debt, decreasing competitiveness and low growth rate, like in Portugal, increased fragility against asymmetric shocks. Italy's public debt has not been reduced to two-digit rates since the beginning of the EA membership and this situation has been a source of concern since the beginning⁶⁵. As a matter of fact, since the EA Crisis, the country's debt and budget indicators have maintained their negative course and have reached record levels.

Since 2009 through time, Italy has been trying to strengthen its economy by austerity policies such as increasing taxes and savings, decreasing public expenditures, review of retirement system and accelerating structural reform process in labor market. Although, in annual terms, real GDP grew by 1.0%

⁶⁴ The European Commission, op. cit., p. 15.

⁶⁵ İktisadi Kalkınma Vakfı, Kriz Sözlüğü, 2013, p. 232.

in 2018, helped by a large carry-over effect⁶⁶ from the previous year, the growth expectations in Italy is subject to high uncertainty for the future outlook. The constraints on private sector access to funds, current political uncertainties in Italy and unexpected weakening in the global economy support the downward trend in growth figures⁶⁷.

In Portugal, as one of the mostly affected country by the crisis, the emergence of the crisis has been caused by the general deterioration of the business environment and competitiveness rather than the result of the ballooning of real estate markets or the excessive fiscal expansion like in many other EU countries. The weak competitiveness in the economy after the global crisis has had a negative effect on debt indicators and caused a confidence crisis. According to the Index of Economic Freedom⁶⁸, which measures economic freedom of many countries based on trade freedom, business freedom, investment freedom, and property rights, Portugal fell into the category of “moderately free” countries in the world rankings by decreasing from 22nd in 2000 to 46th in 2008, 67th in 2013 and 72th in 2018.

Since 2013, the effects of measures like the increase in domestic demand, the rise in wages, the debt reduction programmes and the stability in tax

⁶⁶ The annual average growth rate of real GDP for a given year is determined both by the growth dynamics in that particular year and in the previous year, the so-called “carry-over effect”. The carry-over effect shows how much GDP would grow in a given year if all quarterly growth rates in that year have been zero. Detailed information could be obtained from the website of the ECB: <https://www.ecb.europa.eu/home/search/html/index.en.html?q=+carry-over+effect>

⁶⁷ The European Commission, European Economic Forecast Winter 2019 (Interim), 2019, p. 19.

⁶⁸ The index, created by the Heritage Foundation and the Wall Street Journal and also using data from the World Bank, the International Monetary Fund and the Economist Journal, provides indicators of how much individuals are free to realize their economic interests under various criteria. For more statistics please see <https://www.heritage.org/index/country/portugal>

collection have begun to be reflected positively on the economic indicators. However, with the decrease in the contribution of net exports, economic expansion is expected to decrease since 2018. As the projected deterioration in external demand and increased global uncertainty could have negative effects on business investment decisions⁶⁹, the general positive outlook may just turn to opposite.

As another important example of mostly injured economies, in the Greek Cypriot Administration of Southern Cyprus, the excessive size of the banking sector (nearly seven times larger than GDP) and the close relations with Greece, experiencing the crisis intensely, have triggered a crisis in Southern Cyprus. In the past, the Southern Cyprus financed the current account deficit by foreign capital inflows including especially foreign direct investment and foreign deposits. However, the fact that the Southern Cyprus remains dependent on foreign capital in a crisis environment has increased fragility⁷⁰.

The economic recession was intense in 2013. Despite the positive impact of the tourism sector, GDP decreased by 5.8% due to the shrinking domestic demand. Due to the restructuring in the banking sector and in overall economy, growth is expected to increase gradually in 2018 and the following years⁷¹. Rising household income, employment gains and higher wages, and growing public consumption are expected to boost disposable income and to support private consumption and the overall economy despite decreasing consumer confidence mainly due to the sale and closure of the Cyprus Cooperative Bank, the second largest in the country and held many household and SMEs deposits. On the other hand, there are still

⁶⁹ The European Commission, *op. cit.*, p.24.

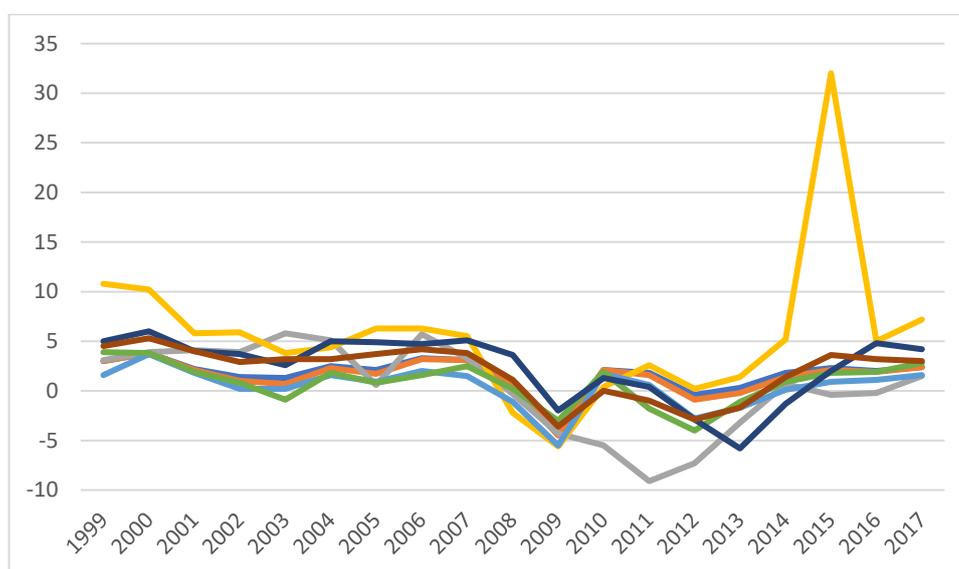
⁷⁰ İktisadi Kalkınma Vakfı, *op. cit.*, p. 228.

⁷¹ *Ibid.*, p.19.

uncertainties on the Southern Cyprus' outlook and increasing negative risks due to the less favourable external environment.

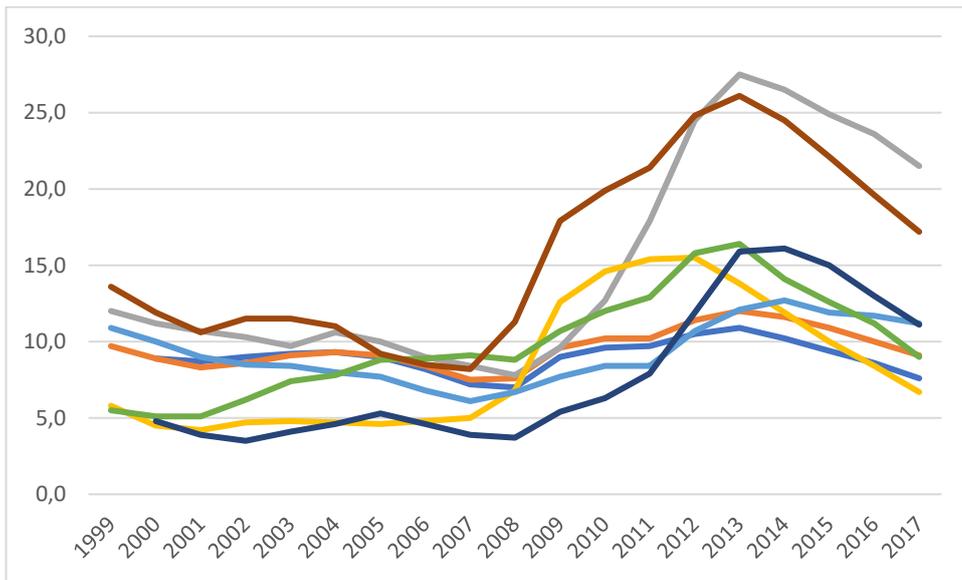
As a last example, in Spain, the fourth largest economy in Europe, in the real estate markets, as in Ireland, balloons are created first and then collapsed. Although the deterioration in the country's financial structure is not extreme, the failure of the country to recover after the collapse of the construction sector and low growth rates have caused social disturbances with a sudden increase in unemployment rates.

With the improvement in tax collection and control of public expenditures, reforms in banking sector, measures aimed at the labor market and increasing competitiveness, main economic indicators started to improve in 2013. However, despite the improving trend, the "public debt / GDP" ratio and the unemployment rate are at high levels. These high rates are predicted to suppress growth.

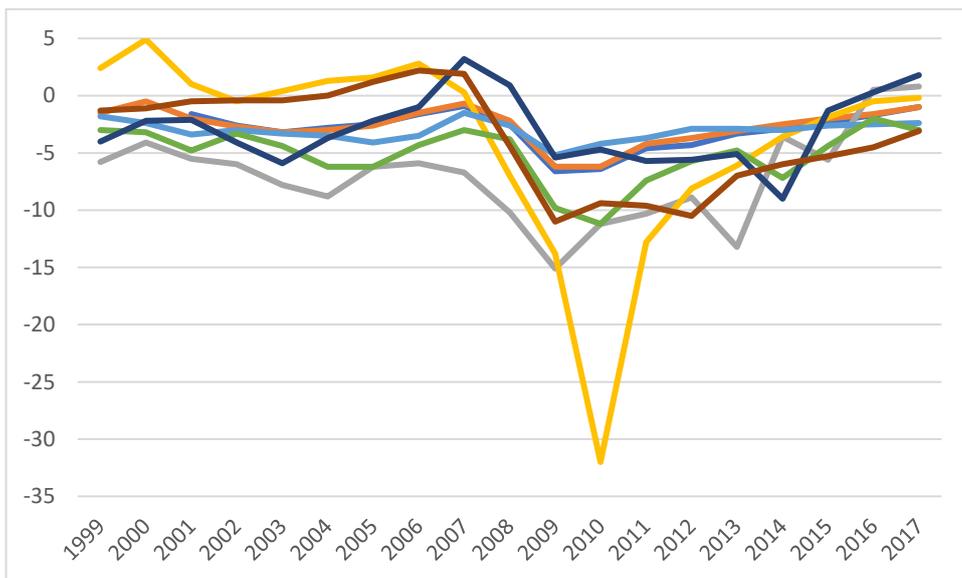


GDP (percentage change on previous period, market prices, 1999-2017)⁷²

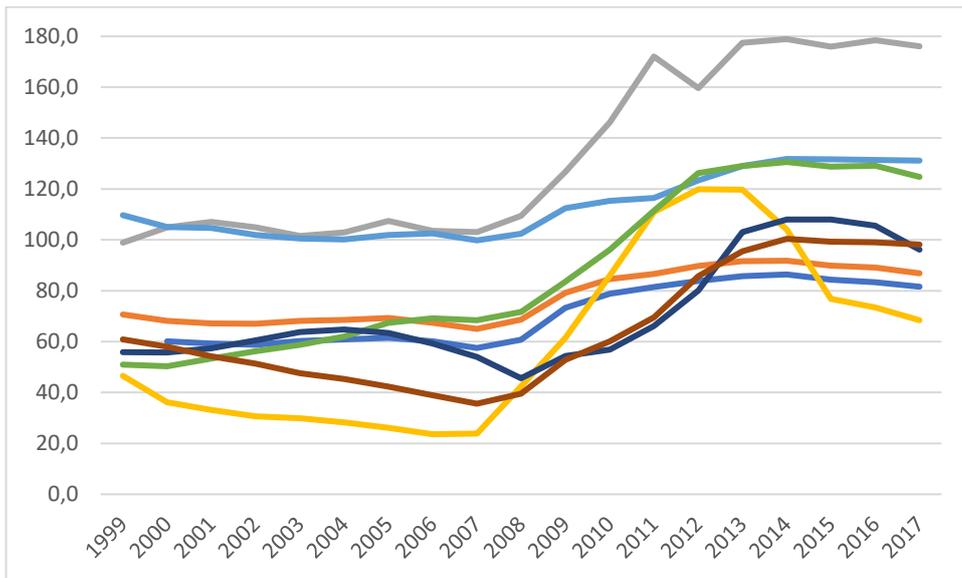
⁷² The reason behind the high GDP growth in Ireland in 2015 is the foreign investment relocated from overseas companies which is included in value of corporate sector.



Unemployment (percentage of active population, 1999-2017)



Government deficit/surplus (percentage of GDP, 1999-2017)



Government debt (percentage of GDP, 1999-2017)



Figure 7: Economic indicators of the most affected countries

Source: Compiled from the data released by the Eurostat

3.2.2 The Least Affected Countries

Countries in this group have recovered quickly after the crisis. Their main economic indicators before and after the crisis are at good levels especially due to their stable economic structures in comparison to the remaining EU countries. Besides, these countries, after 9 years following the 2009 crisis, are now in better positions within the context of these indicators with the help of the mechanisms developed after the crisis. The wellness of these countries is a guide for the rest especially in terms of necessary structural reforms, and it can also promise continuously a hope for the future of European integration. The following inferences can help us illustrate how

these countries are historically successful and how they can be taken as a model for the other countries via observing their policies.

As an example of less affected countries by the crisis, France, is Europe's third biggest economic power in terms of total GDP after Germany and the UK. France has been at the forefront of the efforts to solve the crisis together with Germany and played an important role in finding common solutions to the crisis. Since 2009, France has managed to tackle the economic recession in the EU better than many other EU countries. France's total GDP only decreased in 2009 with 2.9%. Recovery has progressed steadily until present with positive growth rates around 1.5%, which is a good sign with respect to the most affected countries. Although there are doubts that France does not perform fast and well enough after the crisis especially in terms of young unemployment, the young unemployment has gained momentum downwards and the country's main economic indicators are above the average EU values including better total unemployment and trend growth path.

As it is well known Germany, which has a strong economy historically, is one of the founding countries of the EU, is still the fifth largest economy in the world and the largest economy in the EU. Together with France, Germany has played a leading role in making decisions on how to fight against the crisis and introducing new regulations all across the EU. In this process, it should be kept in mind that a significant share of the assistance to Greece is provided in particular by Germany.

The increase in personal and public expenditures, stable consumer inflation around 1.5% in the last 5 years, the remarkable strength on the labour market and the decrease in unemployment rate (5% in 2009 and 2.6% in 2017) supported by the improvement in labor market reflect positively on other economic indicators and these positive developments indicate that the country is able to deal with structural problems better and less affected by crises than other countries in the EU. On the other hand, the economy can be negatively affected by some risks related to the insufficient investment

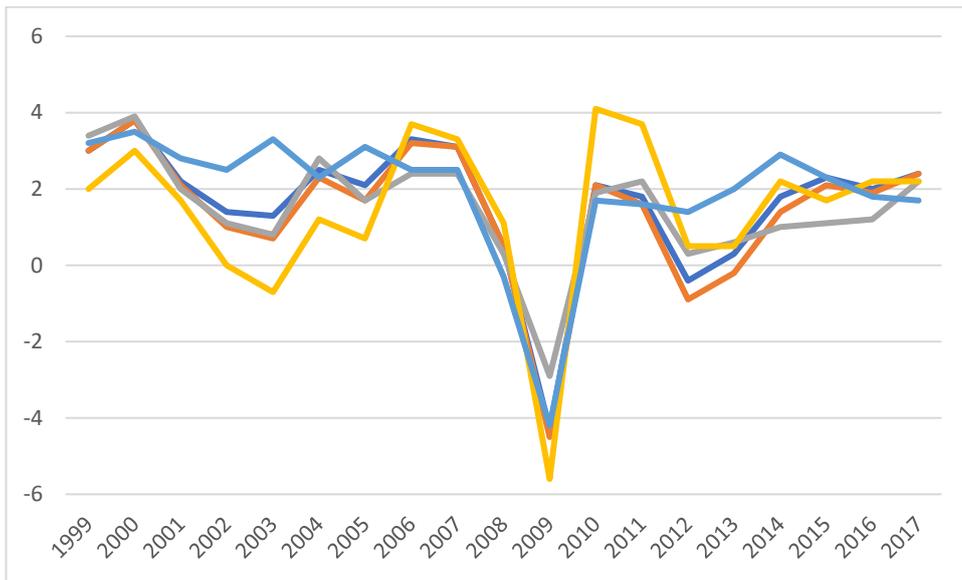
expenditures, weaker than anticipated growth in foreign trade, poorer business and consumer confidence, and slower or weaker take-up of the planned fiscal stimulus⁷³.

The United Kingdom (UK) is less affected by the crisis perhaps mainly because of not being a member of the EMU. The UK has been cautious and kept its distance from the EU since the beginning of its membership, and has not been at the heart of many economic and political policies of the EU. In this sense, the UK opts out of the Schengen Agreement, prefers being independent in its financial decisions and does not support the BU despite being an important financial center.

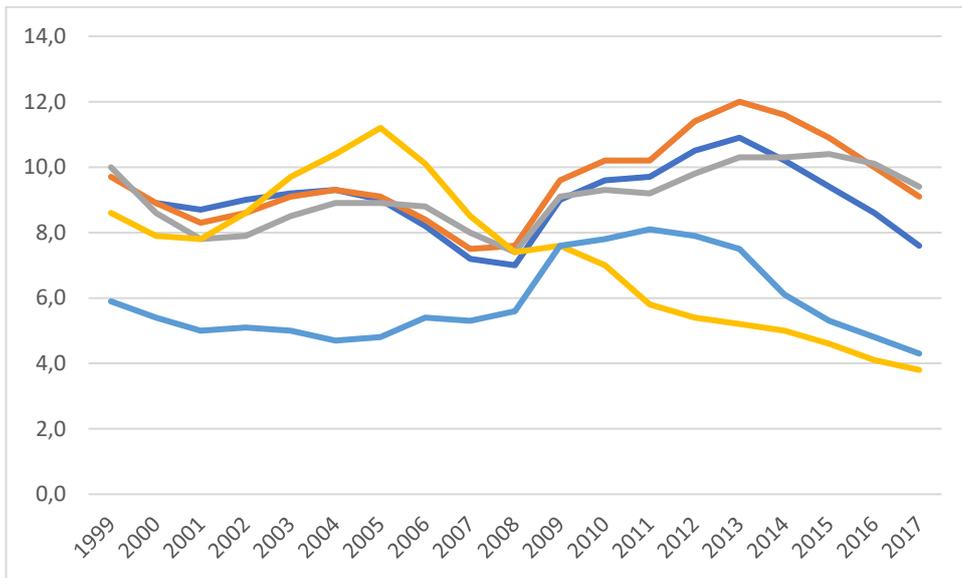
The UK, which has significant external debt, entered a recession period after the crisis and was directly affected by the debts of Ireland, Italy and Portugal. After the 4.2% decrease in GDP in 2009, the growth rate remained positive and the GDP growth in 2017 was 1.7%. Increasing net exports, low unemployment rate with the increase in nominal wages and labour productivity and decreasing household saving rates were the main contributors to the growth rate. GDP growth is expected to be low in the following years around a modest value of 1.3%. This slowdown is highly linked to uncertainty over the future trading relationship between the UK and the EU, which has negative effect on consumer and business confidence and spending⁷⁴.

⁷³ The European Commission, op. cit., p. 14.

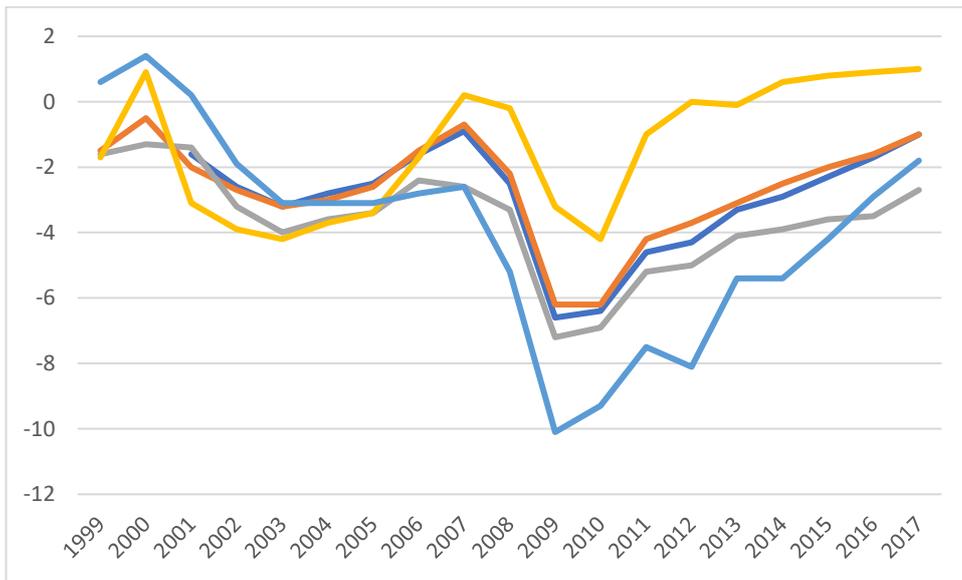
⁷⁴ Ibid., p.28.



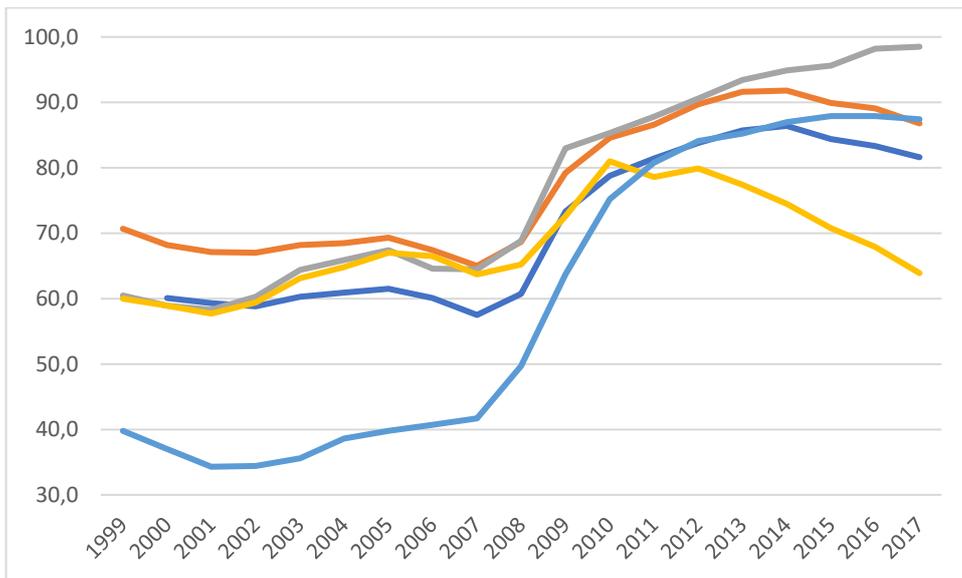
GDP (percentage change on previous period, market prices, 1999-2017)



Unemployment (percentage of active population, 1999-2017)



Government deficit/surplus (percentage of GDP, 1999-2017)



Government debt (percentage of GDP, 1999-2017)



Figure 8: Economic indicators of the least affected countries

Source: Compiled from the data released by the Eurostat

CHAPTER 4

DEFECTS IN EU ECONOMICAL STRUCTURE

In this chapter, the defects of the EMU are tried to be looked in closer. Further, how to solve their blockage on European integration is discussed. In this sense, the emphasis on fiscal policy and its interaction with monetary policy are first discussed especially around the dilemma of “one monetary policy – different fiscal policies”, and then followed by the main arrangements that could be made for the coordination of fiscal policies in the EU. Today, after many years since 2009, there are still economic reforms that are lacking in the EU. There are still problems both at union level and individual country level. Besides, it is observed that there are also obstacles against further regulation, that causes incomplete European integration.

4.1 The Role of Economic Policies in the Integration Process

In 1999, Monetary Union, as one of the most important steps in the economic integration of Europe, was established by starting to use one currency. The responsibility to determine and implement monetary policy was transferred to the ECB. For the fiscal policy, no supranational structure was envisaged, and the sovereignty of member countries continued, taking into account the subsidiarity principle. However, through the Convergence Criteria related to public debt and budget deficits, some degree of harmonization has been sought in the fiscal structures of the member countries.

The aim of the subsidiarity principle, which is included in the EU law through the Maastricht Treaty as stated in Article 5, is to ensure that the decision closest (most beneficial) to the citizens are taken by monitoring continuously whether the activities at community level are sound in terms of local, regional, and national opportunities. More precisely, according to this principle, the EU takes action only if its initiative is more effective than the local, regional or national initiative. In addition, if the actions are taken by an MS within the framework of this principle, the goals should be achieved through the implementations at lower levels of the administration (local administrations) to the extent possible.

Within the framework of the subsidiarity principle, it appears that a decentralized approach in the management of fiscal policies in the EU has been adopted⁷⁵. In other words, the MSs have autonomy to identify and implement their own fiscal policies. Given the size of the EU geography and the complicated economic structures of the countries, it may be useful to achieve such autonomy in fiscal policy since countries, losing their autonomy on monetary policy, have the opportunity to take measures to meet asymmetric shocks within autonomous fiscal policy.

One of the most remarkable subjects in the process of transition to the EMU is that the monetary policy will be carried out by the ECB within the scope of the price stability target. Although the framework of the monetary policy was explicitly laid out in the Maastricht Treaty, there was no general framework for fiscal policy. In this context, the fiscal policy could only be regulated to support the realization of the price stability target in the Union.

Since the global financial crisis the ECB has adopted several unconventional monetary policy measures, some of them having a direct effect on sovereign funding costs. These include the Securities Market Programme of 2010, the Outright Monetary Transactions programme announced in 2012, the

⁷⁵ Yıldız, Habib, Avrupa Birliği'nde Maliye Politikalarının Uyumlaştırılması, Ç.Ü. Sosyal Bilimler Enstitüsü Dergisi Cilt 20 Sayı 2 p. 111-134, 2011, p. 115.

subsequent forward guidance policies, as well as the Public Sector Purchase Programme initiated in 2015. The available empirical evidence suggests that these measures contributed to oppose disinflationary dynamics, to reduce sovereign funding costs and to ensure a more uniform transmission of monetary policy⁷⁶.

When the convergence criteria are taken into account, exceeding the limits for public debt and budget deficit could jeopardize the price stability target. Therefore, the freedom to determine budgetary policies by countries are restricted to a certain extent by introducing criteria for the financial structure, and in this way, the financial imbalances experienced by a member country are tried to be prevented from making trouble for monetary union and the ECB. Within this framework, the convergence criteria and regulations such as excessive deficit procedure are designed as measures before the crisis.

The implementation of fiscal policies by member countries within the framework of such budget criteria could exert pressure on the Union economies and could reduce the effectiveness of fiscal policies⁷⁷. As a result of tight commitment to public debt and budgetary rules, the flexibility to act quickly in times of crises are reduced by restricting the role of fiscal policies as a means of macroeconomic stability and structural activity.

Moreover, convergence criteria for fiscal discipline may have adverse effects, since these criteria may cause reductions in public expenditure and public investments which could be harmful for economic growth. Policies aimed at reducing public expenditure may cause further social inequalities by adversely affecting income distribution. Besides, given that the elderly population has been growing across Europe, demand for social security services and health services would increase steadily. Due to the fact that taxes and public expenditures to meet this demand should be increased, the

⁷⁶ The European Commission, Quarterly Report on the Euro Area Volume 17, No 4 (2018), 2019, p. 18.

⁷⁷ Yıldız, Habib, *op. cit.*, p. 119.

budget targets obliged by the Maastricht Treaty may be missed. Therefore, these dilemmas caused by the implementation of the financial criteria may cause the European internal market to shrink and consumption and investments to be adversely affected.

Another problem is about the way how the budget is used. Since the foundation of the Union, the common budget has not been used as a central intervention tool in the implementation of economic policies. However, more and more member and candidate countries are provided various financial assistance in different areas for the harmonious development of the EU and the adaptation of the countries.

The efforts of member countries in the direction of budget discipline were tried to be supported by the Stabilization and Growth Pact, which was put into effect in 1997. The procedures in the Pact are mainly for monitoring budget positions and preventing high budget deficits. The MSs are committed to submit to the Commission a stabilization program which they will prepare annually in order to reach a balanced budget target. According to the Pact, only in case of a real recession, annual budget deficits will be tolerated to exceed temporarily 3% of GDP and public debt will be tolerated to exceed temporarily 60% of GDP. Despite the fiscal limitations in the SGP, the implementation of sanctions imposed in case of deviations from the budget criteria in the Maastricht Treaty is determined by the Council, so there is a discretionary attitude about whether or not sanctions are imposed.

According to the Excessive Deficit Procedure regulated in the Maastricht Treaty and the Lisbon Treaty, in case of continuous excessive budget deficit, various sanctions up to 0.2% of GDP can be applied. If the excessive budget deficit persists after two years since the implementation of the excessive budget deficit procedure, a sanction as a "fine" can be possible. However, at this stage there is a long procedure applicable. In this way it is aimed to exert more pressure on the MSs in order to force them to fix excessive budget deficit before the sanctions are imposed.

4.2 Main Problems Encountered in the Coordination of Economic Policies

Among the main reasons for the failure of the MSs to meet the financial criteria is the fact that the countries participating in the Union exhibit different economic structures and especially some of the new members have transformed from the economic structure based on central planning to the market economy in the near past. It will not be easy for these countries with weak fiscal balances to meet the Maastricht Criteria and it will take time for these countries to get closer to the EU average in terms of GDP and productivity per capita.

On the other hand, in addition to the above discussion, there are two main problems facing EU countries in their efforts to reduce public expenditure. The first one is related to the reduction of defense expenditure. In this context, the EU is trying to establish common defense policies with the aim of forming a political union. As a second problem, there is difficulty in minimizing the public sector and reducing social security expenditures. As the crisis deepened, unemployment rates have been increasing. In addition, expenditures were inevitably increasing in order to restrain economic and social costs and to ensure economic growth. This situation favors disagreement on financial criteria, and while some countries and the ECB demand full compliance with the criteria, the others advocate flexibility.

The coherence between monetary policy and fiscal policy, which is one of the fundamental propositions of macroeconomics, is vital for monetary unions. In this context, the degree of harmonization among tax policies, the degree of flexibility of labor markets and the degree of centralization of public finances at the union level become important areas to be addressed. On the other hand, almost all fiscal policies are implemented in the monopoly of national decision makers.

As one of the major problems in terms of tax regulations there are significant differences among the MSs. Therefore, it is seen that the studies carried out within the scope of the harmonization of fiscal policies are aimed at mainly harmonizing “budget policies” and “tax policies”:

1. Studies on the harmonization of budget policies can be divided into two groups such as “before” and “after” the establishment of the monetary union⁷⁸. Before the establishment of the monetary union, studies were conducted on meeting and maintaining the convergence criteria. In this context, given the status of the member countries in 1999 it is seen that the countries with some exceptions were generally in compliance with the specified criteria in Maastricht Agreement.

After the establishment of the monetary union, member countries are expected to maintain their compliance with the criteria. When Figures 4 and 5 in Chapter-3 are looked back and analyzed, it is observed that there is a significant deviation in 2009 and 2010 in the budget deficit of the EA due to the impact of the crisis, but in 2017 the benchmark value for budget deficit, which is 3%, is met. On the other hand, the public debt ratio also experienced a significant deviation starting from 2009 due to the impact of the crisis, and this ratio, which was high in 1999, is still over the benchmark value, which is 60% in 2017, although there are signs for recovery since 2014.

2. Within the scope of the efforts to harmonize fiscal policies, a second important area after the harmonisation of budget policies is the harmonization of tax policies. By harmonizing tax policies, a significant step will have been taken to eliminate tax differences (Table 5 and Table 6) among member countries, to strengthen the single market and to lead to a political union. In addition to affecting savings, consumption, investments and employment in the member countries, tax policies shape the goods, services, capital and labor markets. Thus, in addition to being

⁷⁸ Ibid., p. 120.

a market efficiency tool, it will significantly contribute to form an equal economic structure in all member countries.

Table 5: Indirect taxes (2017)

Member States	% of total tax - total	% of GDP - total
Belgium	30,0	13,5
Bulgaria	51,3	15,1
Czech Republic	35,7	12,6
Denmark	35,3	16,1
Germany	27,5	10,7
Estonia	43,8	14,4
Ireland	37,0	8,5
Greece	44,4	17,3
Spain	35,0	11,8
France	35,3	16,4
Croatia	52,0	19,6
Italy	34,8	14,6
Southern Cyprus	46,7	15,9
Latvia	45,5	14,1
Lithuania	40,3	11,9
Luxembourg	31,2	12,1
Hungary	47,4	18,2
Malta	39,5	12,6
Netherlands	30,9	12,0
Austria	34,1	14,3
Poland	40,9	14,0
Portugal	43,8	15,1
Romania	41,6	10,4
Slovenia	39,5	14,4
Slovakia	33,6	11,1
Finland	32,8	14,2
Sweden	51,1	22,7
United Kingdom	38,3	13,1

Source: The European Commission, Taxation and Customs Union, https://ec.europa.eu/taxation_customs/, (accessed on 19 November 2019)

Table 6: Direct taxes (2017)

Member States	% of total tax - total	% of GDP - total
Belgium	39,5	17,7
Bulgaria	20,4	6,0
Czech Republic	21,8	7,7
Denmark	65,4	29,9
Germany	33,3	13,0
Estonia	22,1	7,2
Ireland	46,1	10,6
Greece	26,1	10,1
Spain	31,6	10,7
France	29,0	13,5
Croatia	16,6	6,3
Italy	34,8	14,6
Southern Cyprus	27,6	9,4
Latvia	27,6	8,5
Lithuania	18,2	5,4
Luxembourg	40,3	15,6
Hungary	19,4	7,4
Malta	44,0	14,1
Netherlands	33,4	13,0
Austria	31,1	13,0
Poland	21,5	7,4
Portugal	29,4	10,1
Romania	24,4	6,1
Slovenia	20,7	7,6
Slovakia	22,3	7,4
Finland	39,3	17,0
Sweden	42,7	18,9
United Kingdom	42,6	14,5

Source: The European Commission, Taxation and Customs Union, https://ec.europa.eu/taxation_customs/, (accessed on 19 November 2019)

There are various obstacles in front of the harmonization of tax policies in the member countries. When the share of the public sector in the economy is examined in the member countries, it is seen that there are differences among countries in terms of income and expenditure policies. Besides other factors, differences in social security cuts, demographic structures in countries, political stability, national preferences and differences in policies to attract investments change the share of countries' tax revenues and public expenditures in GDP.

The EU has a complementary role when it comes to taxation, a competence at the core of national sovereignty. Not only the power to introduce or remove taxes, to increase and to reduce them, but also to guarantee that they are actually collected and paid to the state budget is in the hands of the MSs. National governments are broadly free to design their tax laws according to their national preferences, provided that they respect certain fundamental principles, such as non-discrimination and respect for free movement in the Internal Market⁷⁹.

It is possible to examine the tax policies in two ways, as "direct" and "indirect" taxes:

- a) In the EU, various harmonization studies have been carried out in the field of indirect taxes on the elimination of tariffs among the member countries and the establishment of a common tariff against the third countries. Besides, another important target in the studies on indirect taxes has been the elimination of ineffectiveness caused by different indirect tax practices in member countries.

In the Neumark Report⁸⁰ dated 1962, one of the most important studies in the long history of taxation, it is recommended to abolish tax differences in order to prevent welfare differences in the EU.

⁷⁹ The European Commission, 2017 Annual Activity Report DG Taxation and Customs Union, 2018, p. 4.

⁸⁰ The Neumark Report included several recommendations also for the harmonization process in the field of corporate taxation (please see next pages).

While most of the proposals published in the report were adopted, some were left to time. As one of the suggestions in the report, in accordance with the Treaty of Rome and the GATT the principle of "taxation in the country of destination" was accepted⁸¹. In 1992, the recommendations of the report which were left to time were accepted by the Council of the EU.

In terms of VAT, one of the main indirect tax types and the most studied one in the literature, it is observed that there is still no complete alignment and different VAT rates are implemented among countries.

Considering the studies conducted in the field of special consumption tax, which is an indirect tax type for consumption goods and/or for industrial raw materials, there are significant differences among the member countries in terms of rates and implementation. Harmonization studies for these differences, which disrupt competition equality, are tried to be carried out together with VAT studies. However, these studies are difficult to be concluded in this type of tax, where high rates are observed in accordance with the traditions of the countries⁸². Although there are differences in the number and rates of special consumption taxes in many countries, based on the structure of the product, relative and fixed taxes are collected for mainly on the following groups of products: mineral oils, energy, alcohol and tobacco.

On the other hand, the tax rules in place today have been designed for the traditional economies and cannot capture activities which are increasingly based on intangible assets and data. At present, customers are able to purchase goods and services from anywhere in the world via the internet rather than the local high

⁸¹ Yıldız, Habib, op. cit., p. 126.

⁸² Ibid., p. 127.

Table 7: VAT rates (2018)

Member States	Super-reduced Rate	Reduced Rate	Standard Rate	Parking Rate ⁸³
Belgium	-	6 / 12	21	12
Bulgaria	-	9	20	-
Czech Republic	-	10 / 15	21	-
Denmark	-	-	25	-
Germany	-	7	19	-
Estonia	-	9	20	-
Ireland	4.8	9 / 13.5	23	13.5
Greece	-	6 / 13	24	-
Spain	4	10	21	-
France	2.1	5.5 / 10	20	-
Croatia	-	5 / 13	25	-
Italy	4	5 / 10	22	-
Southern Cyprus	-	5 / 9	19	-
Latvia	-	12	21	-
Lithuania	-	5 / 9	21	-
Luxembourg	3	8	17	14
Hungary	-	5 / 18	27	-
Malta	-	5 / 7	18	-
Netherlands	-	6	21	-
Austria	-	10 / 13	20	13
Poland	-	5 / 8	23	-
Portugal	-	6 / 13	23	13
Romania	-	5 / 9	19	-
Slovenia	-	9.5	22	-
Slovakia	-	10	20	-
Finland	-	10 / 14	24	-
Sweden	-	6 / 12	25	-
United Kingdom	-	5	20	-

Source: The European Commission, Taxation and Customs Union, https://ec.europa.eu/taxation_customs/, (accessed on 25 April 2019)

street. The challenge is to make the most of these digital opportunities to be taxed to ensure Europe's competitiveness, while ensuring fair taxation. Therefore, the Commission adopted in 2017 a

⁸³ Parking rate refers to the rate allowed in countries to facilitate the transition among reduced and standard rates.

Communication launching a new EU agenda to ensure that the digital economy is taxed in a fair and growth-friendly way⁸⁴.

- b) In the field of direct taxes, the number of studies conducted is less than indirect taxes. Among direct taxes, corporate income tax and personal income tax are important types, respectively in relation to the free movement of capital and the free movement of labor.

Both of corporate and personal income tax with significant differences among countries can create a trade diversion effect, in other words, as a result of the different tax rates, the net income of companies may be higher in countries with low tax and the companies of the remaining countries may be automatically excluded from doing business in some foreign trade markets due to low profits. Therefore, this huge tax rate differences require harmonization efforts. Since, as a whole, income tax is an important tool used by countries for redistribution of income and as an important element of national sovereignty rights, harmonization activities in the field of income tax should be necessarily considered from a long-term perspective.

⁸⁴ The European Commission, *op. cit.*, p. 7.

CHAPTER 5

ECONOMIC POLICIES IN FIGHTING AGAINST THE EURO AREA CRISIS

The EA Crisis is one of the most challenging exams of the EU faced in its history. The Crisis has caused many economic problems and even political problems such as the increasing doubts on the future of the EU. On the other hand, the Crisis has been a chance to see more closely the main defects of the EMU, and in this way, to produce some remedies such as the European Stability Mechanism, the European Semester and the Banking Union, which positively affect the integration process gradually.

In this chapter, it will be tried to be shown how and to what extent European integration is affected from the economic policies in fighting against the EA Crisis. Although there were some mechanisms before 2009, they were not effective in the prevention of the crisis and in the post-crisis period. It is observed that the mechanisms created after the crisis are more effective defence tools and contribute significantly to European integration process. Therefore, it would be useful to differentiate among the mechanisms and/or economic policies as before and after the crisis. After revealing the pros and cons of these post-crisis mechanisms it will be concluded that European integration is highly affected in a positive way from these mechanisms than the pre-crisis ones so that the post-crisis ones provide more deepening in the EMU and in the EU.

5.1 Important Economic Policies before the Crisis

There are fewer measures in the pre-crisis period compared to the post-crisis period. They are presented chronologically in detail below discussing the pros and cons in terms of European integration.

5.1.1 Procedures in the Maastricht Treaty

In the Maastricht Treaty three procedures were organized to coordinate economic policies. These are: "*comprehensive economic policy principles*", "*multilateral surveillance*", and "*excessive budget deficit procedure*". The "*comprehensive economic policy principles*", approved by the Council, are guideline documents on economic policies that contain recommendations for the MSs. With "*multilateral surveillance*", the MSs are subject to monitoring and evaluating their economies and are obliged to report their economic policies to the EC. The "*excessive budget deficit procedure*", which has a financial nature, assumes that the budget deficit and public debt stock will be monitored by the EC.

On the other hand, the MSs must meet a number of convergence criteria⁸⁵ to join the monetary union regarding price, exchange rate, interest rate and public finances stability, and continue to meet these rules after they have entered the Union. Otherwise, the MSs can be subject to some sanctions.

The EC may decide that the excessive budget deficit procedure should be implemented on the grounds that a member country violates EU rules in the country's draft budget. In order to officially initiate the process the approval of the EU MSs is required. Following the approval of the countries new recommendations are made to the subject country in order to reduce debt

⁸⁵ Please see Chapter 2.3.2.5 above for detailed information on the criteria.

and budget deficits. If there is no agreement reached in this process, implementation of sanctions and penalties would be possible. However, until now there is no penalty imposed against the EA countries in case of violation of the budget rules.

5.1.2 Stability and Growth Pact

The SGP is based on the fiscal discipline provisions of the Maastricht Treaty. Adopted in 1997, the SGP foresees monitoring the criteria on budget deficit and public debt, and introduces preventive (suggestions, early warning) and deterrent (financial sanctions under excessive budget deficit procedure) policy instruments.

In line with the SGP, the MSs are expected to ensure that their yearly budget deficits do not exceed 3% of their GDP. Each year the EU countries submit their budgetary plans to the Commission; they are then assessed annually in the context of the European Semester (see next pages). On the other hand, the MSs are also expected to ensure that their debts do not exceed 60% of their GDP or continue to be reduced at a satisfactory pace towards this percentage.

Actually the existence of yearly deficits and overall debt provides countries investing in future economic growth by obliging them to generate additional income. At this point, the purpose of the SGP is to prevent excessive borrowing and unsustainable public debts, which burden economic development. If the EC finds that an EU country has breached the common SGP rules on deficits/debts, procedures to rectify the situation can be started. If the breaches are not of a temporary or exceptional nature, the EC recommends that EU finance ministers launch proceedings against the country in question using the excessive deficit procedure. Unless a majority of EU finance ministers reject the recommendation, the country concerned

must submit a detailed plan to bring its deficit or debt levels within the limits set by the SGP and according to a given deadline.

These rules, approved by all EU countries and EU institutions, demonstrate that economic decision-making is a matter of common concern and shared responsibility — especially within the EA. While the monitoring aspects of the SGP apply to all EU countries, fines for breaches of the rules can only be imposed upon EA countries⁸⁶.

The SGP Pact was a permanent commitment to budgetary stability, and made it possible for penalties to be imposed on any country in the EA. The same idea was further strengthened in 2012 when the governments of 25 EU countries signed an international agreement entitled the “Treaty on Stability, Coordination and Governance in the Economic and Monetary Union”. It is also known as the “Fiscal Compact” and obliged the participating countries to enshrine rules on a balanced budget into national law. After years of global economic crisis, some countries in the EA have still a long way for fulfilling the criteria in these agreements⁸⁷. Since 1997, it has been observed that the fiscal discipline criteria are frequently not respected by the MSs and financial sanctions are not applied to the states that fail to correct the budget deficit.

5.1.3 Lisbon Strategy

The Lisbon Strategy adopted in 2000 emphasized the necessity of structural reforms and identified three pillars as 'economic', 'social' and 'environment'. Within the scope of the economic pillar reforms related to efficiency,

⁸⁶ The European Commission, Economic and Monetary Union and the Euro, 2014, p. 7.

⁸⁷ The European Commission, Europe in 12 Lessons, 2018, p. 58.

innovation and competitiveness; within the scope of social pillar reforms related to increasing employment and struggle with social exclusion; within the scope of environmental pillar sustainable development reforms are aimed at. The Lisbon Strategy has not been implemented due to the complexity in terms of lots of actors and application tools.

5.2 Important Economic Policies after the Crisis

As it is seen in the above-mentioned procedures, economic policies and mechanisms before the crisis are formed in a general context and do not have any implementation power. On the other hand, after the crisis much more powerful economic policies and mechanisms which are important for European integration are introduced. Below, the measures taken after the crisis and continue to be implemented currently are presented chronologically in detail.

5.2.1 Europe 2020 Strategy

Built on the Lisbon Strategy as a policy document, the Europe 2020 Strategy provides targets for the next decade (2010-2020) of the Union within the framework of growth and employment-oriented axes, taking into account the recent economic crisis. On the other hand, it takes into account not only the short-term struggle with the effects of the crisis but also the long-term goals after the crisis. A reporting system has been established and the Europe 2020 Strategy Progress Report is published annually within the context of monitoring of the Strategy.

The cornerstone of Europe 2020 is the European Semester, set up in 2010 as a yearly cycle of economic policy coordination and dialogue involving

European institutions, EU governments and national parliaments. By using EU budget, for the 2014–20 funding period, the EU wants to meet the targets of the Europe 2020 Strategy, focusing on what Europe needs in order to overcome the economic and financial crisis⁸⁸.

5.2.2 European Semester

It has been clearly seen after the crisis that the countries are dependent on each other and affect each other considerably, and it has been found out that it is insufficient to prevent crises by only taking reference some indicators as in the pre-crisis period in economic management. In this context, in 2010 the Commission reported a series of recommendations on economic governance to ensure better economic coordination. Among the approved recommendations, ex-ante control of MSs' economic and budgetary policies has been made possible, and recommendations could be made before the approval of countries' budgets.

It can be expected that, with the implementation of the European Semester, national authorities will be closer to the Union problems, such as budget deficit and public debt criteria, without restricting the sovereignty of national parliaments over their national budget⁸⁹. However, the recommendations is not expected to be implemented exactly due to its autonomous fiscal nature. When taking into consideration that the mechanisms established before 2009 are not being used effectively enough, it can also be foreseen that the European Semester would result in similar conclusion and would not be effective enough because of non-obeyed rules.

⁸⁸ The European Commission, *Economic and Monetary Union and the Euro*, 2014, p. 12.

⁸⁹ Yiğit, Dilek, *op. cit.*, p. 157.

5.2.3 European Stability Mechanism

Although various measures have been taken towards prevention of crises, it appears that a number of regulations are needed for the post-crisis period, and it has been decided to create a permanent crisis desk for this purpose. In this context, the European Stability Mechanism with a lending capacity of 500 billion euros with a treaty among the members of the EA was established in July 2011 to provide financial support to countries experiencing or having risk to experience debt problems. The ESM is a permanent mechanism replacing the previous two emergency funds established in 2009 and 2010 to help EU countries struggling with their debts: the European Financial Stability Facility and the European Financial Stabilisation Mechanism.

5.2.4 Fiscal Compact

When comprehensive measures are taken at the EU level, this may require a change in the Lisbon Treaty. Then the approval of national parliaments is sought and unanimous agreement is also necessary to be reached at the EU Summits. Fiscal Compact (or the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union), in 2012, was ratified by 25 EU MSs, with the exception of the UK and the Czech Republic. Since there was no unanimity among the MSs, an international treaty was needed to be signed instead of seeking a union-level solution. The UK opposed to amend the Lisbon Treaty for the Fiscal Compact's effective rules that aims at providing more financial discipline. According to this agreement:

- Countries must accept the balanced budget rule at the national level and each country must not exceed 0.5% of GDP in terms of structural budget deficit⁹⁰.
- Penal sanctions are introduced if the criteria for the financial structure in the Maastricht Treaty are exceeded.
- Every government will have the power to sue the EU court for members who are not in a saving tendency.
- Countries that are not party to this Treaty will not be able to benefit the advantages of the European Stability Mechanism.

In addition to the Fiscal Compact, adopted by an international treaty and not covering all MSs (outside the Union level), the rules adopted in the framework of the Six-Pack, which consists of five regulations and a directive for strengthening the financial system, have been implemented since December 2011. The Six-Pack is valid for all MSs, and a comprehensive revision of the SGP is implemented through the arrangements included in the Pack to introduce changes in financial issues and measures to eliminate the current imbalances in the EU and the EA.

In May 2013, two new pieces of legislation, “the two-pack” entered into force. The “two-pack” reinforces economic and budgetary cooperation and thereby the SGP even further among the EA countries. In particular, it strengthens the coordination and monitoring of national budgetary policies. The Commission analyses and makes assessments of the yearly draft budgetary plans of the EA countries before the budgets are ratified by national parliaments. It also strengthens the Commission’s monitoring of the EA countries facing severe financial difficulties and makes parts of the Fiscal Compact binding under the EU law. The aim is to ensure that national

⁹⁰ Structural budget deficit is the budget deficit that arises after the income and expenditures related to cyclical movements have been removed (on the condition that the economy is balanced at full employment level). Periodically emerging deficits are increasing in recession times due to the economic conjuncture, and when the economy enters a period of revitalization, it can turn into budget surpluses. On the other hand, it is a different debate which spending and income movements are structural.

budgets are balanced and that the EA countries in particular do not accumulate excessive deficits and debts, thereby avoiding future economic crises⁹¹.

5.2.5 Banking Union

As the financial crisis evolved in the EA Crisis it became clear that deeper integration of the banking system was needed for the EA countries. Therefore, on the basis of the EC roadmap for the creation of the banking union (BU), the EU institutions agreed to establish a single supervisory mechanism (SSM) and a single resolution mechanism (SRM) for banks. The BU is established to include countries in the EA, where the non-EA countries can also join.

The BU mainly consists of three pillars⁹². The first two pillars of the BU – the SSM since 2014 and the SRM since 2016 – are now in force and fully operational. However, a common system for deposit protection has not yet been established and further measures are needed to tackle the remaining risks of the banking sector. In October 2017 the EC published a communication urging the European Parliament and the Council to progress quickly in the adoption of these measures and to complete all parts of the BU's architecture.

The SSM centralizes supervision of European banks around the ECB. Since November 2014 all EA banks are directly or indirectly under the same supervision by the ECB using the same set of standardized rules and

⁹¹ The European Commission, *op. cit.*, p. 14.

⁹² The European Commission, What is the Banking Union, https://ec.europa.eu/info/business-economy-euro/banking-and-finance/banking-union/what-banking-union_en, (accessed on 19 December 2017).

regulations. The ECB is directly responsible for supervising the largest banking groups, and the national authorities continue to directly supervise the remaining banks under ECB guidance. It ensures that globally or EU-wide agreed principles are consistently applied across the EA aiming to make the banking sector safer and more resilient to future crises. The SRM comes into play when there is no private sector solution for the recapitalization of a weak bank. Its main purpose is to ensure the efficient resolution of failing banks with clear and transparent rules⁹³.

European deposit insurance scheme (EDIS) for bank deposits in the EA is the third pillar of the BU. A properly functioning BU requires parallel steps in risk sharing at the EA level. EDIS would provide a stronger and more uniform degree of insurance cover in the EA. This would reduce the vulnerability of national deposit guarantee schemes (DGS) to large local shocks by weakening the link between banks and their national sovereigns. When one of the banks in the BU is placed into insolvency or in resolution and it is necessary to pay out deposits or to finance their transfers to another bank, the national DGS and EDIS will intervene. The scheme will develop in different stages and the contributions of EDIS will progressively increase over time. At the final stage of the EDIS set up, the protection of bank deposits will be fully financed by EDIS, supported by a close cooperation with national DGS⁹⁴.

⁹³ The European Commission, *The Importance of a Banking Union and Fiscal Union for a Capital Markets Union*, 2017, p. 15.

⁹⁴ The European Commission, *European deposit insurance scheme*, https://ec.europa.eu/info/business-economy-euro/banking-and-finance/banking-union/european-deposit-insurance-scheme_en, (accessed on 15 June 2019).

5.2.6 European Fiscal Board

In 2015, the European Fiscal Board was established to advise and evaluate the overall direction of fiscal policy in the EA. This independent body is composed of five international experts whose work feeds into the Commission's work of surveillance and enforcement of the SGP⁹⁵. The Board provides the Commission an evaluation of the implementation of the EU fiscal rules, including the appropriateness of the actual fiscal stance at EA and national level.

5.2.7 Capital Markets Union

The free movement of capital is a long-standing objective of the EU — a fundamental freedom at the heart of the single market. Despite the progress that has been made, Europe's capital markets remain fragmented along national lines and European economies remain heavily reliant on the banking sector for their funding needs. This makes the countries more vulnerable when bank lending tightens, as experienced during the financial crisis.

With the Capital Markets Union (CMU) it is intended to reduce legal differences and information asymmetries within the existing framework of European institutions by harmonizing supervisory, regulatory, tax and legal practices and reducing other cross-border barriers for European capital markets⁹⁶.

⁹⁵ The European Commission, The European Fiscal Board: Questions and Answers, http://europa.eu/rapid/press-release_MEMO-16-3481_en.htm, (accessed on 19 December 2017).

⁹⁶ The European Commission, The Importance of a Banking Union and Fiscal Union for a Capital Markets Union, 2017, p. 5.

The Action Plan published in September 2015 sets out the priority actions needed to put in place the building blocks of the CMU by 2019, removing barriers to cross-border investment and lowering the costs of funding⁹⁷. The CMU, which is a medium-term project with some important early initiatives, is planned to complement the BU.

A CMU, as preconditions, needs a BU and a fiscal union to function completely. First steps have been made with the start of the BU, the implementation of the SSM and SRM. European leaders, however, do not seem to have the political will to enforce more integration both with respect to completing the deposit insurance part of the BU and to pursuing fiscal union⁹⁸.

⁹⁷ The European Commission, Questions and Answers on the Action Plan on building a Capital Markets Union, http://europa.eu/rapid/press-release_MEMO-15-5732_en.htm?locale=en, (accessed on 19 January 2019).

⁹⁸ The European Commission, The Importance of a Banking Union and Fiscal Union for a Capital Markets Union, 2017, p. 30.

CHAPTER 6

EFFECTS OF STRUCTURAL DEFECTS AND ECONOMIC POLICIES ON EUROPEAN INTEGRATION

It was indicated in his well-known declaration by Robert Schuman dated 9 May 1950, launching European integration project and today celebrated as Europe Day, that "Europe will not be made all at once, or according to a single plan. It will be built through concrete achievements which first create a de facto solidarity"⁹⁹. Today it is seen that these projections are highly valid. On the other hand, it could be inferred from the above discussions that structural defects have existed since the beginning of the EU but have mitigated through time. Although economic policies and structural problems have existed and changed through time, they have maintained their high correlation with European integration.

This chapter deals with the effects of economic policies and structural defects on European integration, that which might be accepted as the core of this study. Within the light of the discussions in the previous chapters, firstly, relationship is tried to be revealed among economic policies, structural defects and European integration, and then, within the context of this relationship the scenarios on the future of European integration are discussed.

At present, it can be claimed that the main motive of further integration is economic benefits provided by integration itself. Of course, in the 1940s and 1950s, the EU as an integration project did not start only because of

⁹⁹ The European Commission, Europe in 12 Lessons, 2018, p. 94.

economic needs. At that time, it should also be noted that political needs such as peace and freedoms were much more important motives for integration. However, today further integration comes with further economic integration which means more coordination between monetary and fiscal policies at EU level.

With the recent economic crisis, it has become obvious that there were various weaknesses of the EA even before 2009. The crisis has also shown that the countries using the euro as their currency are more interdependent which has led them to function as a core group of countries within the EU. The EC has proposed not only increased integration of the EA with reinforced policies for financial, budgetary and economic areas, but also an increase in the legitimacy and democratic responsibility for these policies. The idea is that a qualitative step, aimed at transforming the EA into an area with united economic governance, will give new dynamism to the Union as a whole and consequently benefit the whole continent.¹⁰⁰

The decisions taken by the ECB, which governs monetary policies in the EA, are supranational and binding for the MSs, while fiscal policies are maintained in a national perspective. Although before the crisis reform efforts came to the forefront to tackle with the problems created by this dilemma called as "single monetary policy - different fiscal policies", concrete steps could only have been taken after the heavy consequences of the crisis. However, it seems that the defects in the structure of the fiscal system are difficult to overcome because of the absence of an EU central government with the power to collect and spend tax, in another words, the failure to establish an integrated political union at an adequate level is a major deficiency in the management of the EA. In this context, heterogeneous features such as the structural rigidities of EA MSs, political divisions and different implementations in the financial sectors are seen as serious defects in the original design of the EMU. Therefore, the response of the EU to the

¹⁰⁰ Ibid., p. 95.

global crisis shapes not only the economic but also the political future of the EU.

The EA Crisis not only affects the monetary and fiscal system but also shapes the political and social policies of the nations and plays an important role in the choice of the future policies of the EU and the EA. In this chapter, the social and economical costs and the general effects of the crisis are tried to be dealt with by considering the interaction between the crisis and the economic policies.

The decline in GDP growth rates and the increase in unemployment rates since 2009 can be viewed as a way of revealing the social costs of the crisis. Following the crisis, for the first time, positive growth rates have been achieved in the whole of the EU from 2015 onwards but in 2017 growth is still weak with low rates.

Besides, there has been a general downward trend in unemployment rates in the EU from 2011 onwards. It should also be mentioned that there are substantial differences in unemployment rates across the EA. In some countries, such as Germany, the Netherlands, Estonia and Austria, unemployment is at very low levels while in 2017 there is still more than 10% unemployment in Greece and Spain, which is more critical for young people.

High unemployment has wide social consequences. For the first time since the WW-II there is a rising risk that today's generation could be less wealthy than their parents. In this sense, these developments have strengthened doubts about the design and functioning of the EU's social market economy and especially the EMU¹⁰¹.

Although unemployment has decreased steadily since peaking at 12% in 2013, there is still high unemployment at 9.1% in 2017 after its pre-crisis

¹⁰¹ The European Commission, Reflection Paper on the Deepening of the Economic and Monetary Union, 2017, p. 12.

level at 7.6% in 2008. One reason of the slow decline in unemployment rates is that there are still ongoing structural changes reshaping the EMU in terms of a further improvement in the functioning of the labour markets as well as globalisation and technological progress posing new labour market challenges¹⁰². Another reason generally observed is the inadequate labour mobility across the EU countries.

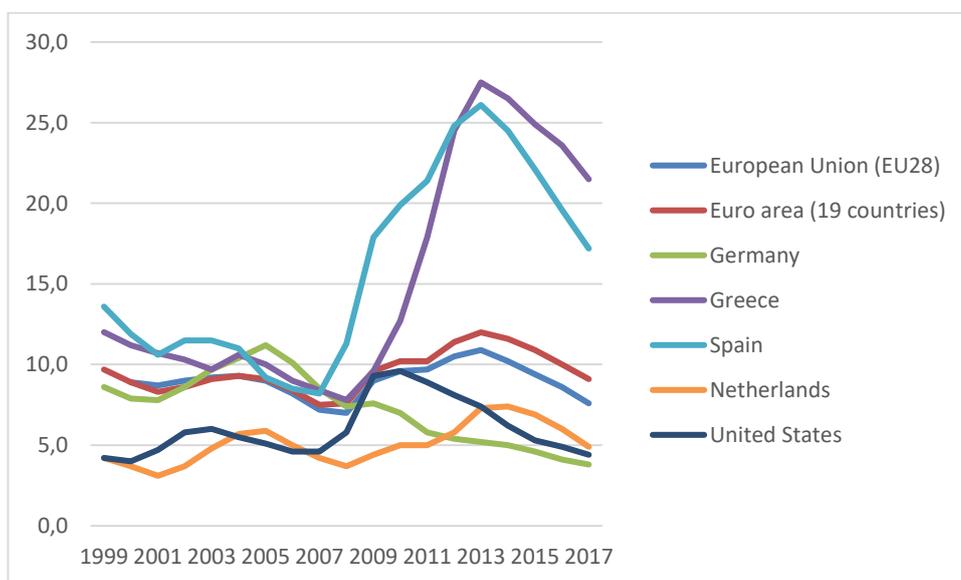


Figure 9: Unemployment (percentage of active population, 1999-2017)

Source: Compiled from the data released by the Eurostat

One of the main reasons of high losses in GDP and employment is extremely high wage increases than the production gains in the period before 2009 in the sectors of public services, finance, real estate and construction. Another reason of GDP loss is the delayed reaction of the countries. The countries using the euro did not have a policy option such as devaluation, therefore they could intervene the real economy only after the crisis. In this way, the

¹⁰² The European Commission, Quarterly Report on the Euro Area Volume 16, No 3 (2017), 2018, p. 41.

MSs did not gather themselves up swiftly because of the austerity policies such as reductions in payments to pensioners and civil servants, increase of taxes, reduction of unemployment benefits, etc. As a result, unexpected increases in unemployment rates also with low growth rates were observed. Given the measures to reduce the budget deficit, the increase of taxes for upper-middle class, the reduction of discretionary funds and unemployment benefits and the reduction of various social funds have increased the social costs of the crisis.

On the other hand, with the influence of the crisis the focus of people and politics has shifted and it has been seen that some secondary social policies are abandoned or have lost their importance. Some examples of the change in social focus and political focus include, respectively decrease in birth rates and reduction in the number of benefits given to families. As the secondary policies lose their importance, the retirement system becomes risky, consumption expenditures decrease and the financial burden on the working population increases. Moreover, the reduction of investments in higher education brings long-term risks. Another social policy that is adversely affected is gender equality on which there are high public spending restrictions. Despite all the struggle for the relief of the social wounds caused by the crisis, it seems difficult to establish a general social policy or a single European welfare state unless there are common rules of competition taking into account social costs and tax.

The relationship among economic policies, structural defects and European integration is highly important to reveal where Europe will go under the influence of economic policies at both national and union level and to prevent Europe from disintegrating. Identifying the institutional defects that the EA has faced since its establishment and the rescue initiatives in the fight against the crisis can be considered as a chance despite the current problems. There is no doubt that the EA will become more resilient against crises after struggling with the problems.

The EU is at a crossroads within this chain of problems discussed above. Today, it is seen that the discussions about European integration take place around the "homogeneous European" and "heterogeneous European" models. There are basically three models used to discuss the future of the EU:

1. Multi-speed Europe: "Time" comes to the forefront as the main variable of this approach¹⁰³. According to this model, a monolithic EU architecture is aimed but the member countries can reach common goals of European integration on different dates. Structural differences among the MSs make it difficult for countries to implement the rules of the Union level at the same time. Therefore, integration will be completed gradually within the capabilities of the countries. Practical examples of this approach include the temporary exemption of some members from the Single Market regulations, the transition period for newly joining states, and the opportunity to participate in the EMU on different dates¹⁰⁴.
2. Variable geometry Europe: "Geography" comes to the forefront as the main variable of this approach¹⁰⁵. This is a European integration model that came to the agenda especially after the end of the enlargement process with the accession of 10 new members in 2004. Accordingly, the EU countries are divided into two main categories as central core and peripheral countries and the level of integration of the central core countries is ahead of the others. There are two variations of this model. According to the first one, the central core is formed of the six founding countries of the EU. According to the second variation, the core is the locomotive countries of the present EU. In this model a monolithic EU

¹⁰³ Öniş, Ziya and Kutlay, Mustafa, *Ekonomik Bütünleşme/Siyasal Parçalanmışlık Paradoksu: Avro Krizi ve Avrupa Birliği'nin Geleceği*, Uluslararası İlişkiler, Volume 9, Issue 33 (Spring 2012), p. 3-22., p. 10.

¹⁰⁴ Keskin, M. Hakan, *Doğru Sanılan Yanlışlarla Avrupa Birliği*, 2010, p. 168.

¹⁰⁵ Öniş, Ziya and Kutlay, Mustafa, *ibid.*

architecture is not aimed, in this sense countries in different geographies are excluded from the decision-making mechanisms, i.e. new MSs in the first case and small MSs in the second case¹⁰⁶.

3. A la carte Europe: "Topic/theme" comes to the forefront as the main variable of this approach¹⁰⁷. According to this model, the MSs may choose the programs and policies considered as compatible with their interests. Although this approach has been raised from time to time, it is not seen as acceptable generally. In this model a monolithic EU architecture is not aimed and there are issues that contradict the founding agreements of the EU since it envisions the creation of various small unions rather than an integrated EU¹⁰⁸.

Based on the models and discussions above, on March 1, 2017, the EC published the White Paper¹⁰⁹ on how the EU could act in the future. In the Paper, after Brexit, five scenarios are foreseen about the future of the EU until 2025¹¹⁰.

¹⁰⁶ Keskin, M. Hakan, *ibid.*, p. 169.

¹⁰⁷ Öniş, Ziya and Kutlay, Mustafa, *ibid.*

¹⁰⁸ Keskin, M. Hakan, *ibid.*, p. 173.

¹⁰⁹ The European Commission, White Paper on the Future of Europe, 2017. The European Commission White Papers include proposals on a specific area. Sometimes they are built on a Green Paper, which marks the beginning of a debate and consultation process on similar areas.

¹¹⁰ The scenarios, in a nutshell, are as follow:

1. The EU focuses on delivering its positive reform agenda (carrying on),
2. The EU is gradually re-centred on the single market (nothing but the single market),
3. The EU allows willing MSs to do more together in specific areas (those who want more do more),
4. The EU focuses on delivering more and faster in selected policy areas, while doing less elsewhere (doing less more efficiently),
5. The EU decides to do much more together across all policy areas (doing much more together).

When taking into consideration the defects mentioned in previous sections of this study, a possible roadmap towards the completion of the EMU should cover all steps for economic, monetary and fiscal union such as agreement on a EDIS which is the third and last pillar of the BU, finalisation of CMU initiatives, strengthening the European Semester, external representation of the EA and establishing an EA Treasury and European Monetary Fund.

Following the crisis, the issues such as exit from the EU and the EMU by agreement, unilateral withdrawal and exiling from membership have begun to be seriously addressed in the EU official environment and media. In this sense, there may be three scenarios¹¹¹:

1. A member country which decides to leave the EU may continue to stay in the EA and continue to use the euro with an "agreement" with the Council.
2. According to a second scenario, an MS may leave the EMU under existing legal regulations¹¹². On the other hand, the country may stay in the EU with an agreement with the member countries. Unilateral withdrawal prior to the Lisbon Treaty is not legally regulated, but it is decided that, in principle, it is possible for an MS to withdraw from the EU by the consent of all parties and by negotiation. Furthermore, the lack of a legal provision is seen as a precautionary measure for the stability of the EMU and the euro.

There are important differences between exit by agreement and unilateral withdrawal. An exit by agreement must be carried out under certain conditions, such as the procedures followed during the negotiation of membership to the EU. On the other hand, a unilateral

¹¹¹ Çamlıca, Ferhat, Avrupa Birliği ve Ekonomik Parasal Birlikten Ayrılmanın Lizbon Antlaşması Çerçevesinde Değerlendirilmesi, Ankara Avrupa Çalışmaları Dergisi Cilt 11 No 1 p. 25-40, 2012, p. 25.

¹¹² This is a new regulation introduced with the Lisbon Treaty, in which unilateral withdrawal has become part of the EU *acquis*.

withdrawal is the practice of an MS legally advancing through it without the need for the approval of the other parties.

The structure that emerged when the EMU was established shows that it is designed as a progressive, deepening and expanding formation. Prior to the Lisbon Treaty, there is no provision in the EU Treaties enabling an MS to leave the EA. When the EMU was established, it was clearly stated in the relevant EU acquis that this process was irreversible and irrevocable. The term "irreversible" refers to the fact that the MSs of the European System of Central Banks have indefinitely and completely transferred their monetary policy powers.

However, according to Article 50 of the EU Treaty which entered into force with the Lisbon Treaty, following the official declaration of withdrawal of the MS, the Council decides on the general principles of the withdrawal agreement and after the decision by qualified majority the process ends with the approval of the Parliament.

It is understood that the EU, which had never needed such an arrangement before, recognized such a right for the MSs under the influence of the recent global crisis. While this provision can be seen as a step backwards in the EU integration process, it can also provide the opportunities such as a facilitation for EU integration by taking the threat of leaving the EU with the referendums and it can also provide an answer to the anti-democratic criticisms such that the MSs are remained under pressure of a non-democratic EU framework.

3. As a third scenario, given the issue of exiling an MS, it seems that this situation is not regulated by agreements. However, it is possible to suspend the membership rights of an MS if the values in Article 2 of the EU Treaty are seriously and continuously infringed¹¹³. The suspension of membership rights here does not mean exiling members, and the rights arising from membership are recovered when the violation is

¹¹³ These values contained in Article 2 of the EU Treaty Consolidated Version are "the values of respect for human dignity, freedom, democracy, equality, the rule of law and respect for human rights, including the rights of persons belonging to minorities."

abandoned¹¹⁴. Since there is no provision in the EU Treaty that allows for the exile of an MS from the EU, the EU Treaty must be amended in order to make the exile of an MS legally possible. Since the amendment to the Treaty requires unanimity of the MSs and the country requested to be exiled from the EU is not expected to endorse such an amendment, it does not seem possible to change the EU Treaty in this way. Therefore, despite the fact that the exile is not legally possible, some sanctions and exclusion mechanisms can produce solutions for the integrity and sustainability of the EU. Some of the mechanisms mentioned in the previous sections of this study also have functions for this purpose.

¹¹⁴ Ibid., p. 37.

CHAPTER 7

CONCLUSION

It could be claimed that the future of European integration can be manipulated through establishing the link between economic policies pursued and the integration process. In this context the research topic of this thesis is to investigate the influence of economic policies especially since the beginning of the EA Crisis on European integration. The question where Europe will go under the influence of economic policies at both national and union level has been tried to be answered.

This study proposes the thesis that Europe will continue to be integrated more and more but in small steps. On the other hand, regressions or some degree of disintegration moves due to economic reasons will be seen from time to time within the integration process. While these so-called disintegration moves can be seen rarely, it is considered that the benefits of integration will always come to the forefront.

In the study, academic and legal documents as well as official statistics have been used when describing and interpreting economic policies in term of European integration. Therefore, mostly descriptive and interpretive approaches have been used. There are also historical and analytical comparisons mainly in sections about economic policy developments. This study is progressive while studying economic policies since the policies are discussed in a historical setting. On the other hand, this study is also regressive while arguing the future of European integration; throughout the

study it has been necessary to look past through these policies in order to make meaningful links between them and European integration.

In the study, the historical course of European integration in terms of main economic milestones, main characteristics and related problems have been explored with the aim of showing the close relationship between integration and the economy. It has been seen that although there are defects in the design of the EMU and it is necessary to make significant progress in terms of some OCA criteria, economic policies have presented a framework contributing positively to the future of European integration by making the EU countries closer to each other.

The key theories on regional and economic integration have been briefly examined in the study. However, the EMU is the main focus of this study. Today, the EMU is used to refer to economic integration in the EU as a last but developing phase especially in terms of fiscal policy harmonization which is discussed throughly in the study.

The study aims to look closer at weak points of the EA, especially arising clearly after the Crisis. The EA Crisis has affected all countries without exception, but at different levels. The debt burden of the MSs, which have created a complicated debt network among themselves, have reached unmanageable levels in the post-crisis period. In the course of the monetary integration process, the financial systems of the EU MSs were rapidly integrated, the borrowing relations of the countries increased and banking activities deepened. Due to low risk premiums, some EU MSs have been able to borrow excessively. In an environment where countries are connected to each other by debt relations and mutual economic and commercial relations are deepened profoundly, the EU has become open to domino effect as a whole.

Some countries have been able to fight the crisis well, while others have not been successful enough. Examining the distinctions among the two groups of countries affected most and least from the crisis has helped us to see the

individual state of each country. The distinctions between these two group of countries are mainly based on the change in their GDP, unemployment, inflation, government deficit and debt burden after the crisis. Eventually it can be concluded that, from the country perspective, there are positive effects of the measures implemented in these countries on European integration since all these countries are now converging to each other within the established economic mechanisms.

It has been seen that the EA Crisis has two main reasons: the first one is that some EA members have to borrow extensively due to the expansionary fiscal policies (increase in public procurement and transfer payments such as unemployment, etc.), and the other reason is that there are important structural defects in the architecture of the EMU. In this sense, it can be argued that the political leaders who agreed on the monetary union did not consider all necessary conditions implied by the OCA theory and the real intention was only to go further in the direction of an ever-closer union especially by using economic policies.

It has been tried to be shown how and to what extent European integration is affected from the economic policies in fighting against the Crisis. There are fewer measures in the pre-crisis period compared to the post-crisis period. Besides, the economic policies and mechanisms before the crisis are not specific and do not have any implementation power. On the other hand, after the crisis much more powerful economic policies and mechanisms which are important for European integration have been introduced. It is observed that the mechanisms created after the crisis are more effective defence tools and European integration is highly affected in a positive way from these mechanisms.

Through the study, it has become obvious that the defects in the structure of the fiscal system are difficult to overcome mainly because of the absence of an EU level authority on taxation. In another words, the EU has no right to impose taxes. It is also observed that there are different taxation methods across countries mainly derived from heterogeneous features such as the

structural rigidities of the EA member countries, political divisions, social behaviour and different implementations in the financial sectors. These differences might also be seen as other important defects in the original design of the EMU. Therefore, the response of the EU to the global crisis shapes not only the economic but also the political future of it.

More specifically, the problems that have arisen since the euro's first use in 1999 are seen as inevitable consequences of the compulsory use of a single currency by a group of countries whose economies show heterogeneous characteristics rather than bureaucratic faults or accidents. Therefore, to be sustainable, the EMU, which can be regarded as a success story throughout its history, requires coordination of monetary and fiscal policies, prevention of the negative effects of the enlargement process, and the enhancement of functionality and efficiency of the harmonization mechanisms necessary for fight against asymmetric shocks.

In addition to these defects which are the main reasons of the continuing stagnation, it has been observed that general violation of financial rules by EA countries before and after the crisis and no on-time-sanctioning of these irregular countries are other important factors of slow economic recovery after the crisis.

With the Maastricht Treaty, in the EU while monetary policy has been centralized by moving it to supranational level, fiscal policies have been preferred to remain autonomous at national level. Therefore, as explained in detail above, it appears that the "subsidiarity principle" has been adopted in the implementation of fiscal policies. In this sense, the MSs are provided freedom to take their own measures against unexpected economic problems because it is difficult to carry out the fiscal policies from a single center. In another words, it is desirable to provide countries with the flexibility to protect themselves with national fiscal policies. However, in order to prevent a negative economic development that may occur in one country from spreading to other countries and affecting the whole of the Union, it is

necessary for countries to have coordination of their fiscal policies with the EA monetary policy.

Structural defects have existed since the beginning of the EU but it is observed that they have mitigated through time. The relationship among economic policies, structural defects and European integration is highly important to reveal where Europe will go under the influence of economic policies at both national and union level and to prevent Europe from disintegrating. Identifying the institutional defects that the EA has faced since its establishment and the rescue initiatives in the fight against the crisis can be considered as a chance despite the current problems. There is no doubt that the EA will become more resilient against crises after struggling with the problems.

The MSs in the EA still face major problems in terms of budget deficit and public debt. It has been seen that given the violations of the MSs, it is more important than ever that countries should not be allowed to go beyond the limits set by the agreements and that borrowing policies should be controlled strictly.

Today we see that the existing rules and practices are not enough to solve the structural problems of the EA. Moreover, the criteria for the financial structure defined in the Maastricht Treaty have been repeatedly violated by almost all MSs including the major ones. Further convergence and centralization are essential in areas such as tax policy and budget policy. This means that countries should act jointly in fiscal policies and increase implicitly political integration.

The problems of the EA are so serious that they could not be resolved without important reforms. In this context, when taking into account national, supranational and international elements of the economic policies against the crisis as well as the high number of actors involved, two main topics have been discussed in this study: one of them is a more efficient management

that can be created for the coordination of economic policies, and the other one is measures to be taken in case of unavoidable possible future crises.

All in all, the EA, the second largest economic region in the world, despite its dynamism, does not have a sufficient number of fast and effective policy instruments. In addition, as well as interdependencies among countries, there are different approaches to the identification and implementation of basic policies among the MSs. However, it is considered that the EU will adopt and internalize behavior that enable to avoid the adverse effects of stagnation by trying to ensure fiscal discipline according to the above-mentioned institutions and rules.

Despite the delayed measures against the recent financial crisis, the complex decision-making processes and various other problems, the members of the EA have also shown that they can make joint decisions when necessary. Despite the long history of the EU and the frequently mentioned phrase of "being together", only after crises important reforms can be started and carried out, and thus, coordination among member countries can be improved. In fact, crises emerge as an important factor in European integration process by supporting the integration process in different ways. When the history of the EU is examined, it is seen that European integration is progressing in parallel with the search for solutions of the problems encountered. Reforms aimed at strengthening European economic governance have increased the cooperation and interdependence among the MSs, ultimately leading to a deeper European integration also with keeping intergovernmental structure.

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APPENDICES

A. TURKISH SUMMARY / TÜRKÇE ÖZET

Bu çalışmanın araştırma konusu, özellikle Avro Alanı (AA) Krizinin başlangıcından itibaren uygulamaya konulan ekonomi politikalarının etkisinde Avrupa bütünleşmesinin nasıl geliştiğini incelemektir. Bu çalışma, yakın dönem ekonomi politikaları ve Avrupa bütünleşmesi arasındaki ilişkiyi açığa çıkarmaya çalışmakta ve Avrupa'nın hem ulusal hem Avrupa Birliği (AB) düzeyindeki ekonomi politikalarının etkisi altında yöneleceğini tarafı belirlemeye amaçlamaktadır. Bu nedenle, Avrupa'nın ne kadar parçalanacağı veya ne kadar bütünleşeceği sorusunun yansımaları tartışılmaya çalışılmıştır.

Bu çalışma, Avrupa'nın küçük adımlarla bütünleşmeye devam edeceği tezini önermektedir. Öte yandan, ekonomik nedenlerden ötürü gerilemeler ya da bir dereceye kadar dağılma hareketleri bütünleşme sürecinde zaman zaman görülecektir. Bu sözde dağılma hareketleri nadiren görülmekle birlikte, bütünleşmenin faydalarının her zaman ön plana çıkacağı düşünülmektedir.

Literatürde, Avrupa bütünleşmesi sürecinde ekonominin önemi ve bütünleşme üzerindeki etkisi birçok araştırmaya konu olmakla beraber, 2009 yılında etkileri yoğun olarak görülmeye başlayan AA Krizi sonrasında oluşturulan ekonomi politikaları ve bütünleşme arasındaki ilişki nispeten az çalışılmış bir konudur.

Bu çalışmada Avrupa bütünleşmesi açısından ekonomi politikalarını tanımlarken ve yorumlarken akademik ve yasal belgeler ile resmi istatistikler kullanılmıştır. Bu nedenle çoğunlukla tanımlayıcı ve yorumlayıcı yaklaşımlar kullanıldı. Ayrıca tarihsel ve analitik karşılaştırmalara ağırlıklı olarak ekonomik politikadaki gelişmelere ilişkin bölümlerde yer verilmiştir. Dolayısıyla, bu çalışma, ekonomi politikaları tarihsel bir sıralama yapılarak ele alınması sebebiyle, söz konusu politikaları incelerken doğrusal bir yapıya sahiptir. Öte yandan, Avrupa bütünleşmesinin geleceğini tartışırken çalışmada geriye bakan ve döngüsel bir yapı izlenmiştir. Zira, çalışma boyunca, ekonomi

politikaları ve Avrupa bütünleşmesi arasında anlamlı bağlantılar kurabilmek için geçmişe bakmak gerekmiştir.

Avrupa bütünleşmesinin en önemli boyutlarından ikisi, bütünleşmenin siyasi yönü ve AA Krizinin başlangıç tarihi olan 2009'dan önceki erken dönem ekonomi politikalarıdır. Her ne kadar bu iki konuya çalışmada kaçınılmaz olarak yer verilse de, bu konular bütünleşme sürecinin neredeyse tüm yönlerini içerir ve bu çalışmanın kapsamı dışındadır. Sonuç olarak, buradaki konunun temel olarak Avrupa bütünleşmesi ile yakın dönem ekonomi politikaları arasındaki ilişkinin ortaya çıkarılması olması sebebiyle, çalışmada, bu durum büyük bir sorun teşkil etmemektedir.

Avrupa'da bütünleşmenin sağladığı ekonomik faydaları bütünleşmenin daha fazla arzulanması için ana gerekçe olarak değerlendirebiliriz. Ancak, 1940'larda ve 1950'lerde, bir bütünleşme projesi olarak AB sadece ekonomik ihtiyaçlar sebebiyle başlamadı. Söz konusu dönemlerde barış ve özgürlükler gibi politik ihtiyaçlar bütünleşmeye talebi artıran çok daha önemli nedenlerdi. Bununla birlikte, günümüzde bütünleşmenin artması ekonomik bütünleşmenin artması ile mümkün olmaktadır. Bu çerçevede AB düzeyindeki para ve maliye politikaları arasında koordinasyonun artırılması ekonomik bütünleşme çabaları içerisinde en önemlileri arasında yer almaktadır.

AB, günümüzde, 2009 yılından bu yana etkileri halen görülen AA Krizi gibi, daha önce hiç görülmemiş birçok zorlukla muhatap olmaktadır. Ekonomik kriz bağlamında 2015 yılından itibaren iyileşme işaretleri kaydediliyor olsa da, Krizin etkileri halen ciddi olarak hissedilmeye devam etmektedir. Bununla beraber, AB daha önce eşi görülmemiş bir mülteci akını, terörist saldırıları ve "Brexit" ile baş etmeye çalışmaktadır. Bu büyük zorlukların üstesinden gelmek, siyasi liderlik ve AB bütçesinin stratejik kullanımının birlikte ele alınmasını gerektirmektedir. Dolayısıyla, AB bütçesi, ekonomik kriz bağlamında, siyasi öncelikler dikkate alınarak, iş yaratma, büyüme ve yatırıma olan katkısını en üst düzeye çıkarma hedeflerine yönlendirildi.

2008 yılı Eylül ayından itibaren küresel ekonomiyi sarsan Kriz, AB ekonomisinin 2009 yılında resesyon dönemine girmesine neden oldu. AB genelinde ekonomik büyüme hızı düşerken, işsizlik oranı hızla arttı. Amerika Birleşik Devletleri ipotek piyasasında likidite problemi olarak başlayan ve birbiri ardına gelişen olaylar ve bunların küresel krize dönüşmesi ilk olarak AB finansal piyasalarını ve ardından tüm AB ekonomisini etkiledi. Ana ekonomik göstergelere bakıldığında Krizden en fazla etkilenen ülkeler Yunanistan, İrlanda, Portekiz ve İspanya olmuştur. Bu dönemde, mali kriterler olarak nitelendirilebilen kamu borcu ve bütçe açığının gayri safi yurtiçi hasılaya (GSYH) oranları AB'de ciddi ölçüde artış gösterdi. Krizden önce AB üyesi

devletlerdeki kamu borçları ve bütçe açıkları kontrol edilebilir seviyelerdeydi ancak ülkeler arasında farklılıklar gösteriyordu. Krizle birlikte ekonomik ve finansal tedbirler alınırken, 2009'dan önce mali kriterlerin göz ardı edildiği ve 2009'dan sonra bile AA'nın çeşitli zayıf yönlerinin olduğu açıkça ortaya çıktı.

İktisat teorisinde iki ana iktisadi politika aracı vardır: para politikası ve maliye politikası. AA'da para politikasını yöneten Avrupa Merkez Bankası'nın kararları Birlik düzeyinde (uluslarüstü) ve üye devletler için bağlayıcı iken, maliye politikaları ulusal düzeyde bireysel ülke tercihlerine bağlı olarak uygulanmaktadır. "Tek para politikası – farklı maliye politikaları" ikilemi olarak değerlendirilebilen bu durumun neden olduğu sorunları aşmak için Kriz öncesinde reform çabaları olmuş olsa da, somut adımlar ancak Krizin ciddi sonuçları görüldükten sonra atılabilmektedir. Krizden önce maliye politikaları açısından çeşitli uyumlaştırma çabaları yapılmıştır. Bu bağlamda, AB üye devletlerinin egemenliği "Maastricht Yakınlaşma Kriterleri" ve diğer bazı ekonomik koordinasyon prosedürleri yoluyla sınırlandırılmaya çalışılmıştır. Dahası, 2009'da AA'yı etkilemeye başlayan Krizden bu yana, Kriz sebebiyle uygulamaya konan ekonomi politikalarıyla birçok kurumsal ve yapısal değişiklik meydana gelmektedir.

Mali sistemin yapısındaki kusurların, çabalara rağmen, AB'nin vergi toplama ve harcama yetkisine sahip olmaması sebebiyle giderilmesi zor görünmektedir. Başka bir deyişle, bütünleşmiş bir siyasi birlik kurulamaması, ya da bir egemenlik göstergesi olarak AB'ye yeterli seviyede vergilendirme hakkı tanınmaması, AA'nın yönetiminde başlıca eksiklik olarak göze çarpmaktadır. Ülkelerin farklı vergilendirme yöntemlerine sahip olmasına ilave olarak, AA üye ülkelerinin yapısal katılıkları, siyasi bölünmeler ve finansal sektörlerdeki farklı uygulamalar gibi heterojen özellikler de Ekonomik ve Parasal Birliğin (EPB) özgün tasarımıyla diğer önemli kusurlar olarak görülmektedir.

AA Krizinin etkilerinin günümüze kadar sürmesine neden olan bu kusurlara ek olarak Krizden sonraki yavaş ekonomik iyileşmenin diğer önemli faktörleri, parasal birlik üyesi ülkeler tarafından mali kuralların yaygın olarak ihlal edilmesi ve kurallara uygun olarak hareket etmeyen ülkelere zamanlıca yaptırım uygulanmamasıdır. Özellikle, 2009'dan önce Almanya, Fransa, Birleşik Krallık ve İtalya gibi bazı büyük ülkelerin kuralları ihlal etmeleri günümüzde bu kuralların uygulanmasını zorlaştırmaktadır. Esasında Maastricht Anlaşması ile belirlenen ekonomik kriterler teorik temellerden yoksun ve teknik olmaktan ziyade siyasi çerçevede alınmış kararlar olmakla eleştirilmelerine rağmen, bu yakınsama kriterlerinin üye ülkelerin ekonomilerini karşılaştırmak için genellikle faydalı göstergeler olduğu kabul edilmektedir.

Maastricht Antlaşması ile AB’de para politikası Birlik düzeyine getirilerek merkezileştirilirken, maliye politikalarının ulusal düzeyde özerk kalması tercih edildi. Bu nedenle, çalışmada ayrıntılı olarak açıklandığı üzere, maliye politikalarının uygulanmasında “katmanlı yetki ilkesinin” benimsendiği görülmektedir. Bu ilkeye göre, AB ancak yapacağı eylem yerel, bölgesel veya ulusal eylemden daha etkiliyse girişimde bulunmaktadır. Bu çerçevede, çok ülkeli bir yapıda maliye politikalarını tek merkezden yürütmedeki zorluk nedeniyle üye ülkelere beklenmedik ekonomik sorunlara karşı kendi önlemlerini alma özgürlüğü tanınmaktadır. Başka bir deyişle, ülkelere kendilerini ulusal maliye politikalarıyla koruma esnekliği sağlanmasının uygun olduğu düşünülmüştür. Bununla birlikte, bir ülkede meydana gelebilecek olumsuz bir ekonomik gelişmenin diğer ülkelere yayılmasını ve Birliğin tamamını etkilemesini önlemek için, tek para politikası ile ülkelerin maliye politikalarının belirli bir koordinasyon içerisinde olması gerekli görünmektedir.

Yukarıda izah edilen çerçevede, yedi bölümden oluşan bu çalışmada, EPB, Krizin gelişimi ve Kriz sonrası uygulanan prosedür ve politikalar hakkında bilgi ve tartışmalara yer verildikten sonra, ekonomi politikaları ve yapısal kusurların Avrupa bütünleşmesine etkileri, bu etkilerin olumlu ancak küçük katkıları gösterilerek, ayrıntılı olarak tartışılmaya çalışılmıştır.

“Avrupa Bütünleşmesi”ni konu alan ikinci bölümde, siyasi meselelere de kısaca değinilerek ekonomik meseleler ön planda bulundurulmaktadır. AB, kıtanın neredeyse tamamını oluşturan 28 üye ülke arasında politika, ekonomi, güvenlik, dış ilişkiler, adalet, sağlık ve çevre gibi çeşitli alanlarda kademeli olarak artan bir bütünleşmeyi sağlamaya çalışan bir organizasyondur. Bu çerçevede, bu bölümde, Avrupa bütünleşme sürecinin tarihsel seyrinin ortaya koyulması amaçlanmış ve aynı zamanda bütünleşme ve ekonomi arasında yakın bir ilişki olduğu ve bu anlamda ekonomi politikalarının bütünleşmeyi şekillendirdiği gösterilmek istenmiştir. Krize cevaben uygulamaya konan yakın dönem ekonomi politikalarının değerlendirilmesi ve bu politikaların Avrupa bütünleşmesinin geleceğine etkileri gibi bu çalışmanın ana odak noktalarına geçmeden önce, Avrupa bütünleşmesinin ekonomik tarihi, tanımı ve çeşitleri ile EPB’nin ana özellikleri ve sorunları hakkında bilgi vermek faydalı olacaktır. Bu da bize, bu çalışmanın sonunda, EPB’nin bazı kusurları olmakla beraber gittikçe bütünleşen bir coğrafi bölgede kaçınılmaz surette ve sürekli gelişen bir yapı olduğu sonucuna varabileceğimiz çerçeveyi sağlayacaktır.

Çalışmada bölgesel ve ekonomik bütünleşmeye ilişkin önemli teoriler kısaca incelendi. Ancak, EPB bu çalışmanın ana odağıdır. Günümüzde, EPB’nin son fakat özellikle de çalışmada kapsamlı olarak tartışılan maliye politikalarının uyumlaştırılması açısından gelişmesini sürdüren bir bütünleşme aşaması

olduğu üzerinde durulmuştur. Dolayısıyla EPB terimi ile AB'deki ekonomik bütünleşmeye atıf yapılmıştır.

Benzer şekilde, üçüncü bölümde, küresel krizin gelişim süreci ve Krizden en fazla ve en az etkilenen ülkelerin geçmiş ve mevcut durumları incelenerek "Avro Alanı Krizi" ele alınmaktadır. Krizle birlikte ekonomik ve finansal önlemler alınırken mali kriterlerin 2009'dan önce göz ardı edildiği ve AA'nın çeşitli zayıf yönlerinin 2009'dan sonra bile bulunduğu daha belirgin ve bilinir hale geldi. Bu bölümde, ayrıca, AA ekonomilerinin uzun dönemli olarak güçlü ve zayıf tarafları ve temel yapısal kusurlarının ve son krizin ekonomiler üzerindeki uzun dönemli etkilerinin istatistiksel verilerden faydalanılarak ortaya konması hedeflenmiştir. En çok ve en az etkilenen ülkelerden oluşan bir gruplandırma, ülkesel düzeyde alınan tedbirleri inceleyerek krizin boyutlarının bireysel ülke düzeyinde nasıl farklılaştığını daha yakından görmemize yardımcı olacaktır. AA'daki üye devletler, bu bölümde incelenen belirli ülkelerin göstergelerinde görüldüğü üzere, bütçe açığı ve kamu borcu bakımından büyük sorunlarla günümüzde halen karşı karşıya bulunmaktadır. Ayrıca Üye Devletlerin sıklıkla kural ihlalleri yaptığı göz önüne alındığında, ülkelerin anlaşmalarla belirlenen sınırların ötesine geçmelerine izin verilmemesi ve borçlanma politikalarının sıkı bir şekilde kontrol edilmesinin her zamankinden daha önemli olduğu görülmektedir.

Çalışma, özellikle Krizden sonra açıkça ortaya çıkan AA'nın zayıf noktalarına yakından bakmayı amaçlamıştır. AA Krizi istisnasız bütün ülkeleri etkilemiş, fakat etkilenme düzeyleri farklılık göstermiştir. Kendi aralarında karmaşık bir borç ağı oluşturan Üye Devletlerin Kriz sonrası dönemde borç yükü yönetilemez seviyelere ulaştı. Parasal bütünleşme süreci boyunca, AB Üye Devletlerinin finansal sistemleri hızla bütünleşmiş, ülkelerin borç ilişkileri artmış ve bankacılık faaliyetleri derinleşmiştir. Düşük risk primleri nedeniyle, bazı AB Üye Devletleri aşırı borçlanabilmiştir. Ülkelerin borç ilişkileriyle birbirine bağlandığı ve karşılıklı ekonomik ve ticari ilişkilerin derinleştiği böyle bir ortamda, AB bir bütün olarak domino etkisine açık hale geldi.

Dördüncü bölümde, EPB'nin kusurlarına ve bu kusurların Avrupa bütünleşmesinin önünde oluşturduğu tikanlıkların nasıl çözüleceğine daha yakından bakılmaya çalışılmıştır. Bu anlamda, ilk olarak, maliye politikasının ve para politikası ile ilişkisinin önemi özellikle "tek para politikası - farklı maliye politikaları" ikilemi etrafında tartışılmakta, sonrasında AB'de maliye politikalarının koordinasyonu için yapılmış olan temel düzenlemeler tartışılmaktadır. Günümüzde, 2009'dan yıllar sonra, AB'de halen ekonomik reformlara ihtiyaç duyulmaktadır. Hem Birlik düzeyinde hem de bireysel ülke düzeyinde sorunlar halen mevcuttur. Ayrıca, daha fazla düzenleme

yapılmasının önünde duran engellerin olduğu görülmektedir, dolayısıyla bu durum Avrupa bütünleşmesinin eksik kalmasına yol açmaktadır.

Aslında, Avronun 1999'da ilk kez kullanılmasından bu yana ortaya çıkan sorunların, bürokratik hatalardan veya kazalardan ziyade ekonomileri heterojen özellikler gösteren bir grup ülke tarafından tek bir para biriminin zorunlu kullanımının kaçınılmaz sonuçları olduğu görülmektedir. Bu nedenle, sürdürülebilir olmak ve asimetrik şoklara karşı etkin mücadele için, tarihi boyunca bir başarı öyküsü olarak kabul edilebilecek olan EPB, para ve maliye politikalarının koordinasyonunu, genişleme sürecinin olumsuz etkilerinin önlenmesini ve uyumlaştırma mekanizmalarının işlevselliğinin ve verimliliğinin artırılmasını gerektirmektedir.

AA Krize karşı mücadelede uygulanan ekonomi politikalarını konu alan beşinci bölümde, Avrupa bütünleşmesinin bu politikalardan ne ölçüde etkilendiği gösterilmektedir. 2009'dan sonra uygulaması başlayan ekonomi politikaları daha önce uygulaması başlayan politikalardan çok daha önemlidir. Zira, 2009 AA Krizi tarih içerisinde AB'nin yüz yüze geldiği en zorlu sınavlardan biridir. Kriz birçok ekonomik soruna ve hatta AB'nin geleceği konusunda şüphelerin artması gibi siyasi sorunlara neden oldu. Öte yandan, Kriz, EPB'nin temel kusurlarını daha yakından görme fırsatı sağladı ve bu sayede, Avrupa İstikrar Mekanizması, Avrupa Dönemi ve Bankacılık Birliği gibi bütünleşme sürecini küçük adımlarla olumlu yönde etkileyen bazı çareler üretildi.

EPB, ortak para politikasının uluslararası düzeyde uygulanması ve üye ülkelerin ekonomi politikalarının uyumlaştırılmasını gerektiren bir ekonomik bütünleşme modelidir. 2009'da başlayan küresel ekonomik krizin etkilerine karşı mücadelede üye ülkelerin para ve maliye politikalarının uyumlaştırılmasının sağlanması için çeşitli prosedür ve politikalar geliştirilmiştir. 2009'dan önce bazı mekanizmalar olmasına rağmen, bunlar Krizin önlenmesi ve Kriz sonrası dönemde etkin olamamıştır. Krizden sonra oluşturulan mekanizmaların daha etkili savunma araçları olduğu ve Avrupa bütünleşme sürecine önemli katkılar sağladığı gözlenmektedir. Dolayısıyla, mekanizmaları ve / veya ekonomi politikalarını Kriz öncesi ve sonrası olarak ayırt etmek faydalı olacaktır. Bu mekanizmaların artılarını ve eksilerini ortaya koyduktan sonra, Avrupa bütünleşmesinin bu mekanizmalardan Kriz öncesi oluşturulanlara göre daha olumlu bir şekilde etkilendiği ve böylece Kriz sonrası olanların EPB'de ve AB'de daha fazla derinleşme sağladığı sonucuna varılacaktır.

Bir sonraki bölüm, bu çalışmanın ana odağı çerçevesinde, ekonomi politikalarının ve yapısal kusurların Avrupa bütünleşmesine etkilerini ele

almaktadır. Önceki bölümlerdeki tartışmalar ışığında, ilk olarak, ekonomi politikaları, yapısal kusurlar ve Avrupa bütünleşmesi arasındaki ilişki ortaya konmaya çalışılmakta ve daha sonra, bu ilişki bağlamında Avrupa bütünleşmesinin geleceğine ilişkin senaryolar tartışılmaktadır.

Çalışmada, mali sistemin yapısındaki kusurların, esas olarak vergilendirme konusunda AB düzeyinde bir otorite bulunmaması sebebiyle aşılmasının zor olduğu ortaya kondu. Başka bir deyişle, AB'nin vergi koyma yetkisi bulunmamaktadır. Ayrıca, esas olarak AA üyesi ülkelerin yapısal katılıkları, siyasi bölünmeler, sosyal davranış ve finansal sektörlerdeki farklı uygulamalar gibi heterojen özellikler sebebiyle ülkeler arasında farklı vergileme yöntemlerinin ortaya çıktığı gözlenmektedir. Bu farklılıklar, EPB'nin orijinal tasarımındaki diğer önemli kusurlar olarak da görülebilir. Bu nedenle, AB'nin küresel krize cevabı yalnızca ekonomik değil aynı zamanda politik geleceğini de şekillendirmektedir.

Sonuç bölümünde, AA Krizinin temel nedenleri ekseninde bu çalışmanın ne önerdiği, üye devletlerinin karşılaştığı temel sorunlar, Krize karşı alınan önlemler, Avrupa bütünleşmesinin gelecekte içerisinde şekil alabileceği ana yollar sunulmaktadır. Aslında, AA'nın sorunları o kadar ciddidir ki, önemli reformlara acilen ihtiyaç duyulmaktadır. Bununla beraber, Krize karşı oluşturulan ekonomi politikalarının ulusal, uluslararası ve uluslararası unsurları ile bunlara dahil olan çok sayıda aktör dikkate alındığında, ekonomi politikaları şimdiye kadar karmaşık ve etkin olmayan bir yapı sergilemektedir.

Çalışmada, bütünleşme ile ekonomi arasındaki yakın ilişkiyi göstermek amacıyla Avrupa bütünleşmesinin temel ekonomik dönüm noktaları, temel özellikleri ve ilgili sorunlar nazarından tarihsel seyri incelendi. EPB'nin tasarımında kusurlar olmasına ve Optimum Para Alanı (OPA) teorisinin bazı kriterleri açısından ilerleme kaydedilmesine ihtiyaç bulunmasına rağmen, ekonomi politikalarının AB ülkelerini birbirine yakınlaştırarak Avrupa bütünleşmesinin geleceğine olumlu katkı sağlayan bir çerçeve sunduğu görüldü.

AA Krizinin iki temel nedeni olduğu görülmüştür: Birincisi, bazı AA üyelerinin, genişleyici maliye politikaları (kamu alımları ve işsizlik ödemesi gibi transfer ödemelerinde artış, vb.) sebebiyle aşırı borçlanmak zorunda kalmaları; diğeri ise, EPB'nin mimarisinde önemli yapısal kusurların bulunmasıdır. Bu anlamda, parasal birliğin kurulmasına karar veren siyasi liderlerin, OPA teorisi tarafından öngörülen tüm gerekli koşulları göz önünde bulundurmadığı ve asıl amacın özellikle ekonomi politikaları kullanılarak yalnızca daha yakın bir birlik olma yolunda ilerlemek olduğu söylenebilir.

Bazı ülkeler Krizle iyi mücadele edebildi, bazıları ise yeterince başarılı olamadı. Krizden en çok ve en az etkilenen ülke grupları arasındaki farklılıkları incelemek, her bir ülkenin bireysel durumunu görmemize yardımcı oldu. Bu iki ülke grubu arasındaki farklar, büyük ölçüde Kriz sonrası GSYH, işsizlik, enflasyon, bütçe açığı ve borç yükündeki değişimlere dayanmaktadır. Günümüzde, ülkelerin durumlarına bakıldığında, oluşturulan ekonomik mekanizmalar ile ülkelerin birbirine yakınlaşmaları sayesinde bu ülkelerde uygulanan önlemlerin Avrupa bütünleşmesi üzerinde olumlu etkileri olduğu sonucuna varılabilir.

Çalışmada, Avrupa bütünleşmesinin Krizle mücadele sürecinde oluşturulan ekonomi politikalarından nasıl ve ne ölçüde etkilendiği gösterilmeye çalışılmıştır. Kriz öncesi dönemde Kriz sonrası döneme göre daha az sayıda önlem bulunmaktadır. Ayrıca, Krizden önceki ekonomi politikaları ve mekanizmaları genellikle makro bir çerçevede sunar ve herhangi bir uygulama gücüne sahip değildir. Öte yandan, Krizden sonra Avrupa bütünleşmesi için önemli olan çok daha güçlü ekonomi politikaları ve mekanizmaları ortaya kondu. Krizden sonra yaratılan mekanizmaların daha etkili savunma araçları olduğu ve Avrupa bütünleşmesinin bu mekanizmalardan olumlu yönde etkilendiği görülmektedir.

Devam eden durgunluğun ana nedenleri olan yukarıda sayılan kusurlara ek olarak, Kriz öncesi ve sonrasında AA ülkeleri tarafından genel olarak mali kuralların sıklıkla ihlal edilmesi ve kurallara uymayan ülkelere zamanında yaptırım uygulanmamasının Kriz sonrası yavaş ekonomik iyileşmenin diğer önemli faktörleri olduğu gözlenmektedir. AA'da yer alan Üye Devletler bütçe açığı ve kamu borcu açısından halen büyük sorunlarla karşı karşıya bulunmaktadır. Bu çerçevede, Üye Devletlerin kural ihlalleri göz önüne alındığında, ülkelerin AB düzeyinde, ülkesel düzeyde ve çok ülkeli anlaşmalarla belirlenen kurallara tam anlamıyla uyması, aksi halde yaptırımların tavizsiz uygulanması ve borçlanma politikalarının sıkı bir şekilde kontrol edilmesi büyük önem taşımaktadır.

Günümüzde, mevcut kural ve uygulamaların AA'nın yapısal sorunlarını çözmek için yeterli olmadığını görüyoruz. Ayrıca, Maastricht Antlaşması'nda tanımlanan finansal yapıya ilişkin kriterlere aykırı hareketler, büyük ülkeler dahil olmak üzere neredeyse tüm Üye Devletler tarafından defalarca tekrarlandı. Bu kapsamda, vergi politikası ve bütçe politikası gibi alanlarda daha fazla yakınlaşma ve merkezleşme sağlanması zorunludur. Bu, ülkelerin mali politikalarda ortak hareket etmeleri ve dolaylı olarak siyasi bütünleşmeyi arttırmaları gerektiği anlamına gelmektedir.

Ekonomi politikaları, yapısal kusurlar ve Avrupa bütünleşmesi arasındaki ilişki, Avrupa'nın hem ulusal hem de Birlik düzeyinde ekonomi politikalarının etkisi altında hangi yöne gideceğinin ortaya konması ve Avrupa'da dağılma hareketlerinin önlenmesi açısından oldukça önemlidir. Yapısal kusurlar, AB'nin başlangıcından beri var olmuş, ancak zaman içerisinde azaldığı görülmüştür. AA'nın kuruluşundan bu yana karşılaştığı kurumsal kusurları belirlemek ve Krizle mücadelede kurtarma girişimleri mevcut sorunlara rağmen bir fırsat olarak değerlendirilebilir. Kuşkusuz, AA sorunlarla mücadele ettikten sonra krizlere karşı daha esnek hale gelecektir.

AA'nın sorunları önemli reformlar olmadan çözülmeyecek kadar ciddidir. Bu bağlamda, Kriz sonrası oluşturulan ekonomi politikalarının ulusal, uluslararası ve uluslararası unsurlarının yanı sıra dahil olan aktörlerin sayısı dikkate alındığında, bu çalışmada iki ana konu ele alınmıştır: bunlardan biri ekonomi politikalarının koordinasyonu için oluşturulacak daha etkin bir yönetim mekanizmasının zorunluluğu, ve diğeri ise gelecekte kaçınılmayacak krizler meydana geldiğinde şimdiden alınabilecek önlemlerdir.

Avrupa bütünleşmesinin geleceğinin, izlenen ekonomi politikaları ile bütünleşme süreci arasında bağlantı kurularak bilinebileceği iddia edilebilir. Bu bağlamda, bu tezin araştırma konusu, özellikle AA Krizi le uygulamaya konulan ekonomi politikalarının Avrupa bütünleşmesine etkisini araştırmaktır. Dolayısıyla, çalışma boyunca Avrupa'nın hem ulusal hem de Birlik düzeyinde ekonomi politikalarının etkisi altında hangi yöne gideceği sorusu cevaplanmaya çalışıldı.

Sonuçta, dünyanın en büyük ikinci ekonomik bölgesi olan AA, dinamizmine rağmen, yeterli sayıda hızlı ve etkili politika aracına sahip değildir. Ayrıca, ülkeler arasındaki karşılıklı bağımlılıkların yanı sıra, Üye Devletler arasında temel politikaların tanımlanması ve uygulanmasında farklı yaklaşımlar vardır. Bununla birlikte, AB'nin, çalışmada belirtilen kurum ve kurallara göre mali disiplini sağlamaya çalışarak durgunluğun olumsuz etkilerinden kaçınmayı sağlayan davranışları benimseyeceği ve içselleştireceği düşünülmektedir.

Son ekonomik krize karşı gecikmiş önlemlere, karmaşık karar alma süreçlerine ve diğer çeşitli sorunlara rağmen, AA üyeleri gerektiğinde ortak kararlar alabileceklerini de göstermiştir. AB'nin uzun tarihine ve sıkça dile getirilen "birlikte olalım" sloganına rağmen, ancak krizlerden sonra önemli reformlar başlatılabilmekte ve sürdürülebilmekte ve böylece üye ülkeler arasındaki koordinasyon geliştirilebilmektedir. Aslında, krizler, bütünleşme sürecini farklı şekillerde destekleyerek Avrupa bütünleşmesinin önemli bir faktörü olarak ortaya çıkmaktadır. AB tarihi incelendiğinde, karşılaşılan sorunların çözüm arayışına paralel olarak Avrupa bütünleşmesinin ilerleme

gösterdiği görülmektedir. Avrupa ekonomi yönetimini güçlendirmeyi hedefleyen reformlar, Üye Devletler arasındaki işbirliğini ve karşılıklı bağımlılığı arttırmış, sonuçta hükümetler arası yapı korunarak daha derin bir Avrupa bütünleşmesine yol açmıştır.

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